The Nonprofit Quarterly Fall 2009 Balancing Act Volume 16, Issue 3

Promoting *Spirited* Nonprofit Management Fall 2009 $14.95

# THE Nonprofit QUARTERLY

## Balancing Act

**Klein:** The Right Message for the State You're In

**Smith:** The Changing Nonprofit-Government Connection

**Rodriguez:** Nonprofits Are Alive and Kicking

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Volume 16, Issue 3

Fall 2009

# The Nonprofit Quarterly

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**The *Nonprofit Quarterly*'s overarching editorial goal is to strengthen the role of nonprofit organizations to activate democracy.**

***NPQ*** believes that open societies require venues for individuals to undertake public projects together that are larger than friends and family but smaller than the state and that range from community arts to environmental advocacy. Nonprofits naturally fill this role, particularly when their efforts engage the ideas, energy, and speech of members of their community. *NPQ* believes that in a democratic society the essential role of nonprofit organizations is rooted in the First Amendment and the Universal Declaration of Human Rights, not in the tax code or the market economy.

We live in a world that needs more of what nonprofits can achieve. We know that our communities hold untapped courage, compassion, and support and that nonprofits are uniquely positioned to build relationships and understanding. *NPQ* is committed to provide a forum for the critical thinking and exploration needed to help nonprofits stay true to this democratic calling—and to achieve their potential as effective organizations alongside their constituencies.

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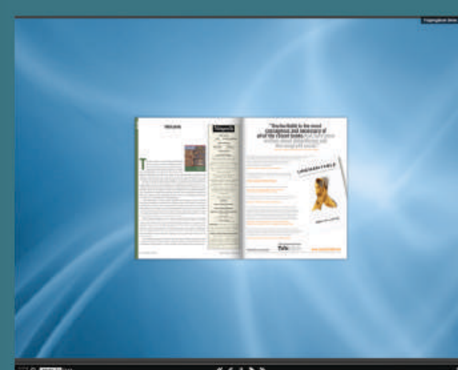

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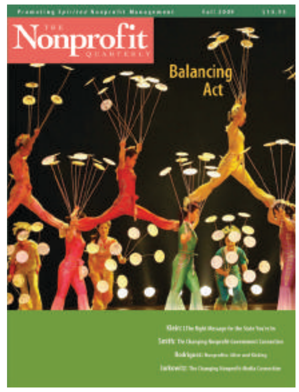
# Welcome




Welcome to the Fall 2009 issue of the *Nonprofit Quarterly*. Recently, I have heard the word *precipice* repeated in conversations with people across the country. It has been used to describe an early round of nonprofit closings in what promises to be an extended downturn in the "real" economy.

In some cases, those closing their doors are not weak in terms of profile or contributions. What they share, however, is a fatal vulnerability in their funding mix, where the loss of one funding source can bring the system crashing down. This may happen only gradually, and the causes may differ: a key state contract may be cut, earned income may dry up, a major funder may decide an organization is no longer a priority. But in each case, the effect is much the same. Once a funding vacuum opens up, organizational leadership is stuck with a decision: is recovery possible, and is recovery worth it?

To some extent, we are all part of a large crapshoot. Some organizations that depend on a single income stream will find that this source holds steady; some will find that it does not. An organization's closing does not reflect its value or competence. Larger political, philanthropic, and economic realities are at work.

What worries me is that we may lose valuable community and national infrastructure and that this infrastructure may take years to rebuild. But, as Langston Hughes put it, "We have tomorrow bright before us like a flame." So we have to look at this period as the chaos from which a new order will be born, and I see the seeds of that new order emerging in the communities I have visited recently.

This emergence is what we need to focus on. What do we want to support, and how do we act accordingly? These questions bring to mind a quote from D.H. Lawrence, which is apropos as we approach uncharted territory. "When we get out of the glass bottles of our ego, and when we escape like squirrels turning in the cages of our personality and get into the forests again, we shall shiver with cold and fright but things will happen to us so that we don't know ourselves. Cool, unlying life will rush in, and passion will make our bodies taut with power, we shall stamp our feet with new power and old things will fall down, we shall laugh, and institutions will curl up like burnt paper."

I am not entirely comfortable with such an open embrace of this new order myself, but we can't turn away now. All we can do is help sculpt and define it.



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# The Nonprofit Ethicist

By Woods Bowman

Dear Nonprofit Ethicist,

My human-services organization is in the early stage of merger discussions with a nearby agency. The merger makes a lot of sense. But now I have learned that the agency submitted a bid on a project we started decades ago and anticipates continuing in some capacity—whatever the outcome of the merger. (The contract was open for bidding for the first time this year.)

We won the contract, but I'm perplexed by the other agency's failure to be open with us. Knowing that our agencies are exploring a merger and—I thought, looking for collaborative opportunities—I expect more transparency. We've executed a nondisclosure agreement as we undertake due diligence, but I didn't think a noncompete would be necessary—until now. Where is the line between professional courtesy and ethics?

Perplexed

*Dear Perplexed,*

*How about the line between ethics and common sense?*

*Nonprofit mergers are always dicey, and it's always wise to conduct a trial run to test the waters. Submitting a joint proposal would have been a good exercise to determine whether synergies are possible and your staffs can work together. Alas, that is water under the bridge.*

*Effective due diligence requires full disclosure. This includes information on projects in prospect, in addition to funded projects. The Ethicist assumes that you had access to the agency's board minutes, and its board should have discussed pursuing this contract—but that is another issue.*

*The key to good ethics is anticipating the effects of a decision on others. Your "partner" should have considered that you could construe its interest in the merger as a façade for obtaining inside information that would aid it in preparing its proposal, which would sour your mutual relationship and inhibit future cooperation. Certainly professional courtesy and common decency required the agency to disclose its intent to bid on your long-standing contract.*

Dear Nonprofit Ethicist,

I am a fundraising consultant. I was asked to be on the board of directors of one of my clients. I was caught off guard and immediately accepted. Is it unethical for me to be on the board of directors of a client and still be paid for my fundraising services?

Blindsided

*Dear Blindsided,*

*In theory a board member can engage in an economic transaction with his organization, provided (1) he discloses his interest to the board, (2) the transaction is in the best interest of the organization, (3) and the board discusses and votes on the transaction in the absence of the affected party. In your case, these tests are easy, but I predict that your fellow board members will expect you to discount your rate. Unless you work for free, your rate will always be too high to satisfy your colleagues. Thank them for the honor, and resign now. Ethics is like spinach: it is good for you even if you have to make yourself eat it.*

Dear Nonprofit Ethicist,

A few weeks after I was hired to be the executive director of my organization, the board chair took me aside and said, “I just want you to know that one of our newest board members applied to be the executive director. She made it through only the second round of interviews, and we realized she wasn’t a fit. But she had so many other qualities, we decided to put her on the board.” I was so shocked that I didn’t even know what to say. She is now becoming a problem and does not understand the difference between her role as a board member and her role in her working life as a paid consultant. She met with a funder without my knowing about it. Help!

Shocked

*Dear Shocked,*

*This person is a professional consultant? She should know better. Important contacts should not be ad hoc. They must be part of a fundraising plan. Explain to the Lone Rangerette your organization’s protocols on approaching funders. If you can, find a role for her, but she must acknowledge that you have to approve—in advance—all contacts with potential sources of funding. (Have her consider this scenario: suppose she wants to ask for $10,000 from a funder, while you plan to ask for $1 million. Once the request has been made, you cannot increase it.)*

*The board opened the door to this problem by electing an ex–executive director candidate to the board. You will need help from the board chair to rein her in, and all board members now have an obligation to work with you to make sure everyone understands his or her role and respects boundaries.*

*On a more speculative note, it’s possible that this person is still angling for your job. The fact that she was a willing candidate for the open position suggests that the consulting business is not going well. Be watchful and firm yet polite whenever she gets out of line.*

Dear Nonprofit Ethicist,

We have a “minimum donation” to attend an event—say, $1,000. People who give out of their foundations send in the $1,000 but frequently do not send a separate personal check to cover the “nondeductible portion”: the food and drink and cost for attendance of the event. The foundation is not supposed to cover those costs. Ethically and legally, these foundation members should pay additional monies to cover that non-tax–exempt cost.

Watchful

*Dear Watchful,*

*It is the foundation’s business who pays for the dinner and how it is accounted for, but you should do your part. Do not call an admission fee a donation. (Only if you admit everyone who shows up empty-handed is the suggested minimum truly a donation.) Your invitations should clearly state that $X of the $1,000 covers the cost of the rubber chicken and is not tax-deductible.*

*It is perfectly legitimate for a foundation or any nonprofit to cover board members’ out-of-pocket expenses in the course of undertaking “company business.” In this case, the foundation should account for the $X as an expense and the balance as a grant. So release that poor bee from your bonnet, and be thankful for each seat you fill.*

**Woods Bowman** is a professor of public service management at DePaul University.

To write to the Ethicist with your query, send an email to ethicist@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 160301.

# Lessons Learned—Or Not?

by Ruth McCambridge

***Editors' note:*** *As anyone who has read the* Nonprofit Quarterly *for any length of time knows, we take your suggestions seriously. In a recent survey, a reader suggested the following as a new feature, and we loved the idea. If you have real-life stories to contribute to this new column on nonprofit snafus and lessons learned, submit them at editor@nonprofitquarterly.com. While the following story is true, names have been changed to protect the innocent and embarrassed.*

The board members of a largely volunteer animal shelter considered themselves lucky when they replaced Dean Jasper, the former executive director and founder of this small organization, at a salary within the organization's means. Miranda Spicer had recently moved to the area and was a longtime volunteer in animal rescue groups in the state from which she moved. She had experience in the financial management operation of a large human-services organization. Board members fell in love because, frankly, under Jasper, record keeping and workflow had been lax.

After the interview, they offered Spicer the job immediately and shared a self-congratulatory moment on their good judgment. The shelter was headed for a brand-new day.

But three days into Ms. Spicer's tenure, the entire organization was reaching for the eject button.

On Spicer's first day, she identified two dogs who had been at the shelter for more than three years and who were "unadoptable" because they were biters: a pit bull and a basset hound. Neither had bitten anyone at the shelter, but both were considered too aggressive to safely adopt out.

Spicer knew that this was a no-kill shelter but that this designation had a caveat for "unmanageable and untreatable" dogs, so she had them euthanized a few days later to free up space.

The next day, the organization was scheduled to have a "community" meeting, including the board and volunteers, most of whom had walked, fed, and loved these two dogs for years. All hell broke loose. Many community members were angry; some were crying. A few days later, after an executive meeting of the board, Spicer was asked for her resignation. A story ran in the local paper and memorialized the dogs as old friends of the shelter. An angry but new-in-town Spicer tried desperately to disappear into the town's woodwork.

The shelter asked Jasper to return even half-time, and other volunteers helped with administrative tasks.

## Lessons Learned—or Not?

For incoming executive directors, it is important to understand the spoken and unspoken culture and guiding principles of the group you agree to lead. If you don't know, ask, for cripe's sake! The euthanized dogs were still at the shelter for a reason. In organizational terms, they were "artifiacts" of the group's belief system.

For hiring boards, it is always tempting to grasp for the polar opposite of a former executive who was considered inadequate. "Finally!" you say, "someone who knows the value of systems and efficiency!" This approach is a bad way to go and exhibits a certain naiveté. Take yourselves seriously. You may need to make some changes, but what do you hold sacred in your own work? Have you taken the time to explore these things explicitly among your staff and with candidates?

Ruth McCambridge is the *Nonprofit Quarterly's* editor in chief.

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# Mission, Message, *and* Damage Control

by Kim Klein

To get all nonprofits funded will require rethinking national priorities, but there is no shortage of money.

***Editors' note:*** *The following article has been adapted from Kim Klein's new book,* Reliable Fundraising in Unreliable Times, *published by Jossey-Bass. In it, Klein shares strategies for surviving and thriving in any economy. The book is filled with practical advice on short- and long-term fundraising strategies and on issues that have an impact on fundraising, such as the role of nonprofits in working for the common good, the role of taxes in creating a just society, and the need for new organizational forms to accomplish nonprofit work.*

IN HARD TIMES, PEOPLE BEGIN TO POSE FALSE CHOICES: "We cannot go to the movies until there is world peace, we cannot have a ballet until there is no homelessness, we cannot save birds until all children are well fed." They see cutting funding, pulling back, as the only way to respond to the economic downturn. The more people react in this way, the more it seems they have taken some kind of sourpuss vow: they will not laugh until oppression has ended.

In fact, there is enough money for all our nonprofits. Granted, to get them all funded will require rethinking national priorities and a redistribution of wealth, but there is no shortage of money.

The case statement is the cornerstone for raising money effectively, the message is specific to the moment; it simply shows the world that you have read the paper, listened to the news, and are conscious of what is happening around you. It places your work in the context of the larger world. It faces current reality squarely.

An affordable-housing group believes people should be able to live in the community in which they work. When the organization launched, its community had low unemployment, but people commuted from nearby towns because housing near their workplace was so expensive. Two years later, the community has high unemployment and people are losing their homes because they can't pay their rent or mortgage. The affordable-housing organization maintains the same mission: "People should be able to live where they work," but now it institutes other actions to fulfill its mission. To help people stay in their homes, for example, the organization creates an emergency loan fund so people can borrow money easily for housing costs and works with local banks to stop foreclosures. Its message is "We make sure that losing your job

**Kim Klein** is an internationally known fundraising trainer and consultant and is the author of five books on fundraising. She is a member of the Building Movement Project, where she focuses on creating fair tax policy.

does not mean losing your home."

The organization's mission is the same, but the message reflects what is happening with housing in the community. It also reflects some very hard work on the part of the board and staff to create these new programs.

Mission is forever, but message is more urgent and immediate.

Here's another example of a distinction between mission and message that a youth symphony orchestra uses to avoid a crisis. This well-regarded group serving a large geographic area has as its mission: "We believe children who have musical talent should be able to develop it as fully as possible and the community should benefit from the talent of its younger members." Suddenly, two sources of funding are threatened: a state arts endowment grant is cut, and a foundation the organization had counted on has more pressing needs to fill. Just as the group loses its funding, the number of children signing up for its summer music camps and trying out for its programs increases. The organization realizes that many kids are eager for a musical education that the public schools no longer offer. While the group's mission remains the same, it adjusts its message to be more compelling during these times: "Children should be musically educated. We augment the work of the schools in providing musical education for children." This message puts forth the organization's belief that the public schools should provide music and art education.

Next the organization forms an advocacy task force with parents and board members to pressure the legislature to find money for music education in the public schools. In the meantime, it continues to meet an immediate need. When it presents this point of view to its funder, the funder reconsiders and restores the grant. With its new message, the group can also attract donors who may not be that interested in music but who agree that music should be part of children's education.

Mission is forever, but message is more urgent and immediate.

Underlining all my recommendations about developing your message is my firm conviction that you are always best off telling the truth and only the truth. But you may not be telling the whole truth until you are sure that you know it. In big crises, truth has a way of changing with time and who does the telling.

## When Message Is Damage Control

When an organization is in an internal crisis, the message is more along the lines of damage control: explaining what happened and making sure that everyone who should has the information he or she needs.

An organization has a history of sloppily kept or nonexistent donor records. Gifts are often not recorded properly, people are not thanked or are thanked for the wrong thing, donors are "reminded" of pledges they have not made. A new development director has been hired to improve the situation, and the message has gone out to board members that these problems have been resolved. But early in the new development director's tenure, several events cause the board to question whether record keeping has actually improved. First, a major donor tells a board member that his pledge form commits him to a $10,000 gift when he pledged only $5,000. The executive director speaks to all parties; though the development director insists the pledge was for $10,000, the donor is equally sure it was for $5,000. The executive director changes the pledge form, reassures the development director that this donor has been inconsistent in the past, and alerts the board member that this was probably not a record-keeping issue. Next, the development director seriously overstates the return on a direct-mail appeal. When the discrepancy surfaces, he claims that his math was faulty because he was so busy entering respondents into the database that he figured out the percentage of response in his head. The third month, the development director announces an impending grant for $25,000. When the executive director calls to thank the foundation funder, she learns no such grant has been proposed, nor is one forthcoming.

Now the executive director realizes that the previous "truth" of bad systems has been overshadowed by a bigger current truth: the development director is a liar. She fires the development director immediately and calls the board chair, who informs the board members of what has happened. The executive director talks to the two other staff members. They and the board chair agree that the message will be as follows: "We were unable to get accurate information from the development office. Since the development director was on probation, we have terminated his contract." The board members and the staff will know more specifics, but no one else needs to.

The executive director lets the foundation funder know that the development director has been terminated because he gave misleading information and asks the funder to pass the information on to anyone who needs to know. This funder is a reliable and trusted member of the funding community and likes this group. Her word among funders and major donors that things are being handled properly is important.

This organization averted a more serious crisis by handling the situation immediately once it understood what had taken place. During this crisis, only a few people really needed to be involved, but they were kept informed all the way. By enlisting a trusted messenger—the foundation funder—the organization controlled fallout from the development director's actions.

## Getting the Board and Staff on Board

In crises, we often focus on the opinions of people outside the group: donors, clients, even the general public. Yet our greatest difficulty in forming a message and relaying it is often at the board or staff level. It is critical that board and staff believe their opinions are welcome; further, they must not feel that they are being asked to lie or be evasive with others. Board and staff must be involved in the process of exploring options and discussing all the points of view, or they can quickly feel stifled. In one such situation, the board chair explained to a major donor, "I'll tell you what I am supposed to say and leave you to read between the lines." His explanation was lost; the message "I leave you to read between the lines" overshadowed other information. One funder reported to a small group, "Even the board chair just says, 'Read between the lines.'" Needless to say, this is not good message development.

Your message should not be evasive or vague. If there are legal issues involved, ask your lawyer what you can say and what would be legally dangerous or off limits. But if there are no legal issues, figure out how you can tell the whole truth but also emphasize the mission of the group. Message development may take some time and may bring important discussions to light as the crisis develops and is worked through. The process of developing the message can also be part of the message, particularly when part of the board has divergent opinions, as in the following example.

**The process of developing the message can also be part of the message.**

An after-school program for teenagers provides a basketball court, a bank of computers for doing homework, an art room, and volunteer adult counselors. Half the funding for the program comes from the local department of parks and recreation, and the other half from the business community and a cross-section of parents. The program has one paid staff person and 50 volunteers; its budget is $150,000.

The parks and recreation department is forced to make serious budget cuts in its programs, resulting in a cut of $50,000 of its grant of $75,000 to the after-school program. Because of the economic downturn, some businesses also cut back on donations to the program. In a matter of months, the organization suffers a 40 percent decrease in funding.

The board calculates that it can run the program at its current level for six months while it figures out how to raise more money. It announces to the parents and students, "Everything is fine right now. We are seeking other sources of funding, and we encourage each of you to give and help raise money."

As the board works with the executive director to create a fundraising plan, philosophical differences develop. Many board members worked hard to advocate for government funding for the program. The mission of the organization—"Teenagers are a community asset and need to be nurtured"—implies that the government has a role. These board members feel that even if the program could be sustained with private donations, it shouldn't be. It would be more principled to close it. "That's not fair to the kids," says the other faction. "We have to try to run the program on less money or raise money elsewhere." The board is further split when one member suggests renting part of the space to Armed Services recruiters, supporting the view that the Armed Services offers good jobs and scholarships for kids, along with possible income for the program. Longtime peace activists in the group are appalled at the potential sellout. Two months pass, with each faction becoming

Don't be nervous to admit that you don't know everything yet.

more firmly entrenched and with no money being raised and no plan formed for cutting expenses. The message "We are exploring options" has worn thin, particularly as the various arguments are put forward to the parents, students, and business community. Everyone has an opinion.

The board decides on a bold course: get community input on the various options. The board writes a short letter to parents, teachers, businesspeople, and the community at large presenting the dilemma and inviting them to a meeting: "How do we best show how much our teenagers mean to us? We believe our program deserves government funding. But in these times, that kind of funding is not available. If we are to replace our lost grant, we must have help from the entire community."

About 50 people attend the meeting and meet for four hours. At the end, consensus is reached: the program will seek private funding, but the city council will be asked to pass a resolution declaring the program a city treasure. Seeking government funding will be a top priority. The center will not be available to the Armed Services or other recruiters. As has always been true, employers can post job announcements and anyone can post announcements of scholarships, internships, and volunteer or job opportunities.

The message generated during the meeting is simple: "We have chosen to put teenagers ahead of all other concerns. We believe teenagers are a community asset, and we as a community pledge to keep this program open." By going public with their differences, this organization ensured that differences of opinion about the future of the center could be reviewed in one place at one time and be resolved.

## Delivering the Message

The process of creating a message cannot be separated from the process of creating a response to the crisis. But groups usually cannot wait until a full response is put in place before putting forth a message. Donors, staff, and the public need information about what is going on with the organization.

The message that you start with, then, should involve the least amount of truth you can deliver without appearing to hide something. In fact, part of your message can be that you will send out additional information as it becomes available. Don't be nervous to admit that you don't know everything yet. It is better to have "not knowing" be part of the message than to say something that turns out to be false and have to issue a correction. Further, the message cannot be separated from the messenger. Finding well-respected and trustworthy people to help you deliver your message is just as important as the message itself. They can deliver the message and then conclude (assuming they feel this way), "I think everything will be fine" or "I have a lot of confidence in the team of people who are working on this." Finally, fundraisers always have to take into account that there is an order in which the message will be delivered. Make sure that you don't inadvertently alienate someone simply by not informing that person of the situation early on.

Like the response to the crisis itself, the process of delivering the message involves several parts. Make a list of those who need to hear about the crisis first. In addition to board and staff, think about anyone who considers themselves close to your organization: that is, the organizational "family." This includes active volunteers, longtime funders, longtime major donors, and former staff and board. In choosing whom to tell first, don't create such a long list that you then spend time calling people rather than planning. These close-in people are also often those you will approach for donations. Remember, you can always tell someone, but you cannot untell that person. When in doubt about telling someone, wait.

Next, identify who should deliver the message to these people and how they should get it. Generally, those who are told are told through a call or a visit. Avoid e-mail, which can be forwarded easily, may take on a life of its own, and can create meanings that would not be present if the message were delivered personally. Longtime donors, funders, and volunteers make great messengers. Board members—particularly the chair of a board—can deliver the message but may be perceived to be too close to the situation, possibly involved in creating the problem, and too defensive. Major donors are usually told by those who have solicited gifts from them in the past. The people who are told first can be enlisted to tell others. Since these people will probably want to tell someone anyway, this approach provides some control over message delivery.

Institute a regular way to keep the people on the list updated about what is happening. As in many crises, if the situation unfolds over time, create a phone tree to keep people up to date. At this point, you can create an e-mail newsletter, but remember: anything you write in e-mail can wind up anywhere—at the office of the FBI, on the front page of a newspaper, or in the inbox of the person you have fired. E-mail needs to be considered public information and no amount of marking it "CONFIDENTIAL" can change that.

## Talking with Major Donors about the Crisis

In a crisis, major donors need attention and reassurance. When an organization is in a crisis, the donors who agree to talk with you—even on the phone—need reassurance that their gift won't go down the drain. Will you raise the money you need? Will you be back next year with yet another crisis? Do you know what you are doing? How did you get into this mess in the first place?

Even if they are not able to articulate it, most donors realize that a crisis is not just a big problem in an otherwise smoothly functioning organization. While what caused the crisis may not be your fault, a crisis has a longer history than the crisis event.

The following four tips can reassure almost all major donors; and you may need just one or two to reassure them effectively. These four elements are an explanation, a plan, evidence of other donors, and an escape clause.

**An explanation**. Major donors are like family. In a family, when someone has a heart attack or a couple decides to separate, relatives expect more information about the situation than, say, a neighbor. And part of major donors' insecurity is that, if it could happen to you, are their other beneficiaries far behind? Explain to these donors what has been told to others close to the organization. Don't launch into a long explanation, but allow the donor to ask you what he wants to know and be open to the donor's questions.

**A fundraising plan** is a source of reassurance because it shows that you have thought through what is required in the coming months to move beyond the crisis. Your plan should be as realistic as possible. But plans also shape reality, so your plan needs to be optimistic. Be prepared to show the prospect your cash-flow chart and a strategy-by-strategy description, including gross and net incomes for each strategy. Show your gift-range chart, and talk about how many other prospects you have.

**Help from other donors.** Evidence that others have bought into this plan is important. As you receive gifts, ask whether you can share the donor's name and size of gift with other prospects. If a donor knows that Manuel has given $5,000, and he respects Manuel, he is more likely to make a gift. For donors that are reluctant to share their name and gift amount, you can always tell a prospect, "Two other donors have given $10,000" without using their names. Having board buy-in is also critical. Even if board members cannot be major donors, you need to be able to say, "One hundred percent of our board members have made a gift that is significant for them to demonstrate their faith in our future."

**An escape plan.** Some donors need a contingency; they will give only if certain things happen. But a way out should be offered only when a donor indicates that's what it needs to pledge a gift. If an organization follows through on the three elements above, most donors do not require this fourth element.

What does an escape plan look like in fundraising? Let's say you approach someone for a lead gift of $10,000 on a $100,000 goal. The person is committed but hesitates, asking questions about where the other $90,000 will come from. Ask how close to the goal of $100,000 your organization must be for the donor to believe that the campaign will succeed. Some will say, "If you had half of it, I would feel better." Others will say, "If you get one more big gift, I would feel better." Offer the donor the option of pledging conditionally. A challenge gift is a great motivator. Sometimes the challenge is not about the amount of money but who gives it. A donor may say, "I'd feel better if I knew Fred was in. He is so smart about these things." You would then say, "Can we get back to you after we have talked with Fred?" Go even further and say, "Can we tell Fred you said this?" When you approach Fred, tell him that his leadership gift will lead to another gift. Finally, some donors want to give some now and some when you raise additional monies from other donors.

Most donors realize that a crisis is not just a big problem in an otherwise smoothly functioning organization.

While context does not excuse anyone, understanding the context allows for compassion.

## Financial Scandals

Simply getting more donors is not reassuring to a prospective donor that wonders how your executive director managed to skim off $75,000 over three years without anyone noticing. Moreover, it's not helpful that the treasurer of the board knew about and tried to deal with the problem quietly. In the second scenario, how can a donor trust an organization's veracity or judgment when it turns out that a program staff member filed a false report—a report that was signed by both the executive director and board chair? Their protestations that they didn't have time to read the report do not make anyone feel better. In both cases, an enterprising young reporter has scooped these stories for the local paper, and they are the talk of the town (or that part of town that cares about these organizations).

Scandals are difficult to deal with because they break trust. Now, the question is not whether your plan will succeed but whether you really can fix an organization that has allowed such behavior. Returning to message, you should identify those who can say that your organization can be trusted and the problems are being addressed. Talk with these people. What would they need to see in the organization to confidently say good things about it or put money into it?

In a scandal, finding the context of the problem goes a long way in reassuring others that the problem can be solved. The executive director who skimmed $75,000 from his organization had a gambling problem, for example. The treasurer of the board and a staff person knew the director was stealing but tried to deal with the problem quietly so as not to embarrass him. The director has now been fired and is in a recovery program. The organization learned a lesson in how to deal with painful situations and has even allowed a consultant to write up its situation as a case study for other organizations. While context does not excuse anyone, understanding the context allows for compassion.

In the second scenario, context is even more important. The newspaper story rightly said that a staff person filed a false report. But what was the nature of the falsification? The staff person lied about the progress the organization had made on creating an earned-income venture. She claimed that a business plan was almost complete and the organization was ready to hire a staff person when those accomplishments were at least six months in the future. The executive director signed the false report—and the board chair went along—because he thought the project delays might cause the funder not to pay the second half of the grant. The executive director should simply go to the funder and say the project is behind. This will not be the first time the funder has heard that! Instead, he tried to operate in secret and in turn a newspaper reported that the organization had lied when in fact the error resulted from bad judgment. When the program officer of the foundation finds out what has really happened, she gives an extension on the grant and pays for the executive director to get executive coaching to help him make better decisions in the future.

In a scandal, donors need to know that the circumstances that created the scandal no longer exist and that the organization is thoroughly evaluating itself to ensure that nothing else is amiss. From a fundraising viewpoint, a scandal is hard to deal with and requires even more reaching out than other kinds of crises. Tell the truth, and tell it to those whom other people trust.

In the end, donors are your friends, and major donors are your family. They may not like what you do, but they will generally stand by you if they have enough history with you to know that this scandal is something you did—and not something you are.

## Everything Comes Back to Mission

Creating a message during a crisis is relatively simple once the organization recommits itself to its mission. Program or fundraising direction may have to change because of the crisis, but that step is possible as long as a group of people cares deeply about the organization. If you see telling the truth as the only option, it limits what you can say. Don't make something up or pretend something is true that is not. You will figure out who needs to hear the truth from whom, and when they need to hear it.

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# Is Bigger Better?
## The Case for Small Nonprofits

by Fran Barrett

**With an operating budget of less than $7,000, Bristol Street Block Association was a model of cost-effectiveness.**

Over the past 30 years at Community Resource Exchange, I've been involved with more nonprofit organizations than I can list. Consistent with research findings on a national basis and in New York City, most of these organizations were small, with operating budgets of less than $1 million. But as I engage with other leaders around the city about the future of the nonprofit sector and the service delivery network, I am often chilled by the sense that in the future, as government and private dollars become available, a sign will be hung out that says, "Only large organizations need apply." Driving this scary thought are the underlying assumptions that larger organizations are more reliable, have greater impact, and are more cost-effective—in short, that they are a better bet. But are they really?

### The National Bristol Street Block Association

Many years ago, I worked at a small Brooklyn-based organization that called itself the National Bristol Street Block Association. From the incongruity of the name, you may discern that the organization had vision. As I recall, it ran a block watch to increase safety on the street, and it provided a small food pantry for neighbors in need. It also sent delegates to local city hearings and school board deliberations and reported back to its members through a newsletter.

I often think that we have a lot to learn from the National Bristol Street Block Association about self-worth. It knew that it made a difference in its community and that its impact was not confined to the residents of three blocks of Bristol Street. Members explained to me that people grow up on Bristol Street, move away, and then later return with families. People start businesses; the church on the corner drew people from all over New York, and the landlords of Bristol Street were kept informed and viewed as key stakeholders. The National Bristol Street Block Association encouraged active citizenship, instilled values, and offered hope and inspiration for everyone touched by the organization. It is quite possible that despite all this, some policy makers might have said that the organization was too small to

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If small, community-based organizations were for-profit operations, we would sing them hymns of praise.

matter. But no one who came in contact with this organization would question its creative—or shall I say, expansive—interpretation of its role and long-term commitment to its community. With an operating budget of less than $7,000, it was a model of cost-effectiveness.

The Bristol Street Block Association was unique only in the boldness of its "national" vision. The reality is that most nonprofits are small—91 percent of them, according to Tim Delaney of the National Council of Nonprofits. Like Bristol Street, the organization has reached out and made an impact larger than the sum of its daily endeavors. But because these small nonprofits are dispersed throughout the city, it's hard to get a full sense of their contribution.

I've said that it sometimes seems to me that community organizations are part of some vast unexcavated archeological site, toiling underground with their own money, leaders, values, and points of interest. While the rest of New York walks daily over their heads, with little or no awareness of this metaphysical nonprofit subterranean city, these small organizations get kids into schools and keep them there, feed hungry people and get them access to entitlements, counsel battered women, and work with immigrants to bridge the gap with a new culture, all the while providing innovative and creative-arts and cultural programs. Meanwhile, back above ground, the recession has driven the assumption that all will be well if we can just "get organizations to scale."

If small, community-based nonprofits were for-profit operations, we would sing them hymns of praise for their entrepreneurship, creativity, and hard work—traits so often linked to small businesses. But these days, the only music community-based organizations are likely to hear is the blues, questioning their worth and existence.

## The Ties That Bind

Small nonprofits develop out of a passionate quest for a solution to a problem. During the late 1990s, a small group of tenants in Brooklyn organized to resist unfair evictions and "flipping" of moderate-income tenements by speculators. Ten years later, with a staff of four and a budget of $175,000, this group prevents 200 evictions a year. This solution-driven mission creates a lean and focused organization. The tenants have, as we might say, a "big dog in this race." Their homes, the homes of their neighbors, and their community are at stake. They are not driven by funding and have often kept the work going with little or no financial support. Why? They are protecting themselves and their neighborhoods; they have done so for 10 years and, over those years, have prevented hundreds of evictions. They have saved the city of New York thousands of dollars in shelter fees. All the while, they work long term to preserve housing stock and build tenants' organizations.

Small nonprofits are creative and flexible, capable of great customization. One interesting organization provides an affordable way for parents and teachers to create cardboard "furniture" for severely handicapped kids. The furniture is designed so that it can be constantly adapted as children grow. Think of a kindergarten class with an "inclusion" program, with all the children sitting in a circle except for one in a wheelchair. With help from this organization, the teacher learns how to make an affordable cardboard support for the handicapped child so that he can sit down with the rest of the students. The organization is led by a published author with expertise in creative construction who has dedicated her life to ensuring that as many handicapped children as possible have access to the world they live in. Over the past 14 months, this organization has built 3,250 assistive devices for 137 children and has introduced assistive devices to another 342 people. This group has an operating budget of less than $400,000.

Small nonprofits often have a strong set of community stakeholders who support them with modest contributions and significant volunteer time. Some have small government contracts; most also rely on a constellation of small donors that complement their budget in a meaningful way. Many of the public oversight agencies are particularly concerned with fiscal controls vis-à-vis smaller community-based nonprofits. My experience is that organizations with a high level of community ownership handle their finances with enough integrity to outdistance oversight controls. I recall a board meeting of a halfway house where the fundraising report consisted of a person dumping change out of a paper bag onto the meeting table. The total was about $40, and a lively discussion ensued as to how it would be spent.

Stewardship and ownership arise organically for community-based organizations, and this drives most of the decision making. An organization of Caribbean, Latina, and African nannies, housekeepers, and elder–care givers organize for respect and to build a movement to end exploitation. This group collects dues to substantially support its efforts. The founders worried that low-wage workers would not be willing to pay dues, but it turns out that the workers like the ownership that comes with paying dues. Members make up a significant part of the organization's management and board. There are 2,000 members, and the operating budget is about $250,000.

Small community-based organizations have limited infrastructure, which means that their staff and volunteers need to multitask as they perform operational and program work. In addition, they have to be members of the community so that no "translation" of language or culture is required. In other words, they have to perform at a high level—and for very little money, I might add. The average salary in the nonprofit sector is about $30,000. One organization with which I'm familiar was founded by a doctor to support the Mexican community and operates on a budget of $350,000 to help recent Mexican and Latin-American immigrants succeed in their new home. This doctor also serves as the executive director and leads the development effort.

In 2002, John Seley of the City University of New York and Julian Wolpert of Princeton conducted a study that indicated that, even 10 years ago, roughly 85 percent of New York–based nonprofit organizations were small, which meant that 15 percent were large. Does anyone really think that 15 percent of the organizations want to, or could, take over 100 percent of the work? This is all the more unlikely when 49 percent of these organizations provide services at the neighborhood level, according to Seley and Wolpert.

If we are talking about service, scalability is a good idea. We should have a democracy that can provide service and help to everyone who needs it. As far as I can tell, that would mean scaling up low-income housing, early-childhood and universal pre-K education, Section 8 vouchers, summer camp scholarships, and residences for artists. If "getting to scale" is translated as "actually meeting needs," then small organizations have to be seen as essential players. Small organizations go where others don't want to, bring hope when there is no rational reason to have any, ensure that marginalized communities have voice and vehicles for collective action, and work toward missions they believe in. But in my experience, small community-based organizations are often undervalued. They are sometimes viewed as inept drains on government and foundation budgets. But from where I sit, after more than 30 years of work, nothing could be further from the truth. Small organizations are more likely to be the strong engines that move the mechanics of change at the very heart of where that change is needed.

**Small organizations go where others don't want to and bring hope when there is no rational reason to have any.**

No one would argue that larger community-based organizations don't share many of these ties that bind. And in the coming years, in fact, a partnership of large and small organizations makes the most sense. But it would be ironic if a democracy led by a former community organizer became a government that undervalued the remarkable contribution of small, community-based organizations. And admittedly, it is not easy for large foundations—particularly those with a global or national agenda—to identify effective local organizations. I'd like to suggest that this problem is worth grappling with—and at the risk of going to the "shameless commerce division" of Community Resource Exchange, I would suggest that local intermediaries can and do bridge this gap very effectively.

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# Nonprofits *in the* Age of Obama

## PART THREE

The worst economic downturn in the postprivatization era, coupled with a new administration with a different but largely untested approach to the nonprofit sector, means there are likely to be major shifts in the relationship between nonprofits and government, philanthropy, and business. The **Nonprofits in the Age of Obama** series is a project of the *Nonprofit Quarterly* that does the following:

- tracks philanthropic and public funding trends;
- tracks trends in public policy at the federal, state, and local levels;
- provides insights into how various types of nonprofits are uniquely affected by and managing in the current environment;
- provides advice and commentary by experts and fellow practitioners;
- highlights emerging practices and approaches;

For daily updates and timely trend alerts, also see our Web site **www.nonprofitquarterly.org**, and sign up!

# Alive and Kicking:

## *Nonprofits in Late 2009*

by Lissette Rodriguez

It has been just more than a year since the financial crisis on Wall Street and the results of the U.S. national election arrived almost simultaneously. The economic earthquake of the past year has shaken many organizations to their core. Individual donations, United Way campaigns, and foundation assets are all hurting, particularly in states where the economy is tough, and state and federal funding have fluctuated wildly.

"[Before the downturn], we were already on a decline. Funding has dropped, and we are having to merge with another agency to survive."

—An *NPQ* Reader

And 2010 looks to offer even more of the same.

So how have nonprofits fared amid the tumult? The answer is mixed and depends on numerous variables, some external, others involving internal capacity. We interviewed three capacity builders around the country to get their perspective.

### The More-with-Less Thing

"Probably the number-one thing we've seen is program cuts," says Kate Barr, the executive director of the Nonprofit Assistance Fund, which operates in Minnesota and surrounding states. But she notes that a reduction in the total number of programs "doesn't mean that [organizations] were necessarily serving fewer people, because their surviving programs may be growing. So the food shelf is attracting more people, but then they canceled the after-school program because they lost that grant." In other words, one year into the recession, many organizations now serve at least as many people as they did previously—and as a result of the economy, many of those served have more intense needs.

A recent survey of approximately 250 leaders of human-service organizations in New York City tells a similar story. Conducted by the Human Services Council of New York City and the Center for Nonprofit Strategy and Management at Baruch College, the study found that 80 percent of responding organizations had experienced reductions in private contributions, while 66 percent had lost public funding. At the same time, 80 percent of respondents had experienced increased demand for their services.

### Three Categories of Capacity?

While most organizations are affected by the economic downturn, the health of these organizations prior to the recession says a lot about

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ILLUSTRATION © SARAJO FRIEDEN/LILLA ROGERS STUDIO


"move the ocean"
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how they are doing now. "I think of nonprofits as having sorted themselves into three groups," says Jeanne Bell, the CEO of CompassPoint Nonprofit Services, a nonprofit consulting firm based in Northern California. "Some groups came into this downturn already relatively weak or needing a different frame for their work, and they have to make some decisions that probably should have been made a while ago."

> "Employees have not received an increase this year, and administrators were asked for a 10 percent salary giveback. We are looking at other measures to increase staff satisfaction."
>
> —An *NPQ* Reader

The second category, according to Bell, is made up of the groups "that are strong and getting even more resources at this point." In the third category are groups "that were relatively strong as the downturn started and they need to reset or resize in response to funding cuts or diminishing donations." Of course, while some organizations may have been able to adjust this year, not all will necessarily be able to thrive—or even survive—over the long term.

> "This year's income is down by 30 percent, and we have had to cut people and costs. There is little that we can do differently and are simply forced to do less, but this has resulted in a thorough review of our organization, giving rise to some healthy streamlining of procedures."
>
> —An *NPQ* Reader

## The Blessed among Us

Will your organization survive the downturn relatively unscathed, or will it have to scramble to survive? That may depend on the field your nonprofit occupies, especially if it is one with a strong link to federal funding. Some organizations, for example, are well positioned to provide a "shovel ready" service under the American Recovery and Reinvestment Act of 2009. Kate Barr of the Nonprofit Assistance Fund cites community and housing development corporations as examples of the "blessed" among us. "They are just perfectly situated to purchase and rehab foreclosed property," Barr says, "and if they've got access to the kind of capital they need to just get the construction done before sales," increase again, that is an opportunity. "It's being in the right place at the right time—doing the right kind of work."

## Eroding Cores

One of the big challenges for nonprofits during this period has been the hit that so many have taken to their core infrastructure. For instance, many organizations have worked hard to keep services intact but have compensated by reducing administrative, development, and financial staff. This presents a challenge to organizations trying to stay on top of the changing environment while cultivating funder relationships and tracking the political priorities that influence public resources. "There's been an almost universal cutback in infrastructure, so if you had one and a half people in the development department, you're now down to three-quarters," Barr says. "If you had an assistant for the CEO, you now don't, so [there are] a lot of those kinds of cuts." On top of these situations where surviving staff are stretched thin, "there have been a lot of cuts to salaries," Barr says. "A lot of cuts to benefits."

## Regeneration

Still, hard times can present opportunities as well, such as the chance to review and focus on core mission and strategic priorities. "One of the things that we are seeing is that people are trying to get better about prioritizing what they're going to focus their attention on," says Inca Mohamed, the executive director of the Management Assistance Group in Washington, D.C. "I think it certainly has called some groups to an opportunity to get really clear about their mission and strategy. These groups are saying, 'If we have to make some hard choices, what are they going to be?' And it's serving as an impetus for people to look at things that they've questioned in terms of how directly it's related to the mission or what might have been the cost of doing it and whether that cost is worth it."

## Exploiting the Moment

While weathering the current storm is something most groups have managed to do, predicting the long-term shifts and consequences of the recession is more difficult. "Be prepared for three years of downturn, which means that [nonprofits] have to go through the process of really analyzing and understanding every component of what they do," Barr warns.

> What do they do? What does it cost? What impact does it have? Whom do they serve? Who else competes on services? It's really a time for strategic thinking. It's not necessarily a time for that kind of classic nonprofit strategic planning, but really thinking strategically about what you do. We're also—and we're not the only ones saying this— really making sure that people understand that in three years—assuming that three years from now the nonprofit sector is in better shape—that it's not going to be the same. So organizations should really be thinking about how they will be different in three or two years or in one year.

CompassPoint's Bell has asked leaders to seriously consider the best way to frame that conversation to get some creative juices flowing: "What I would ask them is not to think about it as 'We're being cut by $45,000' or 'We're being cut by $200,000,'" she explains.

> Instead, say, "Alright, we used to be a $4 million organization, now we've got to be a $3.5 million organization; that doesn't mean we can't do incredible work. It means I have to think about delivering that work in some different ways," and that kind of framing is very important. I think the reason people don't do that is that they think categorically because they're financed categorically. Just because a categorical funding source is going away or getting cut doesn't mean that you have to respond categorically. I think that kind of a shift—particularly in health and human services—can be helpful to folks.

Meanwhile, Management Assistant Group's Mohamed is working on getting organizations to think in parallel tracks: one focused on managing the present; the other on reaching for a longer-term vision: "Our clientele is primarily organizations [that] are engaged in some kind of systemic social-justice work," he says.

> Many of them are organizations doing advocacy work trying to do things like overturn the death penalty. These are goals that take a long time to achieve, so one of the ways we've been trying to work with people is to acknowledge that while the funding issues are there, there is also a tremendous political opportunity right now and the need to hold both things in sight is really important. I think that to different degrees, people are trying to hold both ideas. Of course, there are still really hard choices that people have to make while holding on to their long-term vision. But the long-term vision cannot be lost in the midst of all of this.

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**"Our group has experienced 20 to 30 percent funding cuts. We've had site closures, layoffs, and we are serving fewer people because of loss of Medicaid funding. But on a positive note, we've had tons of press about the organization, and funding cuts led us to design a new strategy for the organization, talking with 550-plus community stakeholders and developing an 18-month strategic framework."**

—An *NPQ* Reader

**"The economic downturn has also reduced state tax revenues, which has reduced per-pupil spending. We have reduced the school year by 17 days and reduced administrative staff schedules by 20 percent. We have eliminated merit increases, eliminated breakfast, and slightly increased parent fees."**

—An *NPQ* Reader

# Advocacy in the Age of Obama

by Ruth McCambridge

***Editors' note:** Over a three-year period, the* **Nonprofit Quarterly** *has committed to following 30 nonprofits as they traverse this economically challenging and tumultuous environment. In this, part three of the Nonprofits in the Age of Obama series, we explore the importance of advocacy organizations at a time when numerous policy shifts have taken place at national and state levels, many of which serve rural or remote portions of the United States.*

## Advocacy in the Age of Obama

The nonprofit sector has a tradition of advocacy networks that encourage those affected by a problem to speak their truth to legislators, but the realm of nonprofit advocates also includes a scheme of state, regional, and national players much less connected to and governed by constituencies affected by those issues.

President Barack Obama has voiced an interest in promoting active participation in our democracy, but some believe that the scrum around the new administration looks depressingly familiar as an insider's game dominated by national issue advocates without grassroots connection and authenticity. Will those in more marginalized states and populations be heard through their nonprofit advocates? This complicated question depends not only on legislators' willingness to listen but also on the connectedness of advocacy networks to those they represent.

First we consider a national advocacy and service network made up largely of volunteers as well as a Connecticut behavioral health center and then explore an organizing and advocacy network in Arkansas and a think tank in New Mexico.

**Ruth McCambridge** is the *Nonprofit Quarterly*'s editor in chief.



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## Amplifying Voice at Every Level: The National Alliance on Mental Illness

*Fairfax, Virginia*


Active at the national, state, and local levels, the National Alliance on Mental Illness (NAMI) network epitomizes many of the sector's strengths. It provides a collective voice at the national and state levels and a local place of connection and advice for those with serious mental illness.

Former Republican Senator Pete Domenici of New Mexico has a daughter with atypical schizophrenia. Twenty years ago, as his daughter neared her 18th birthday, he recognized that there was a problem. He and his wife sought support for themselves, and they found it at one of 1,100 chapters of the National Alliance on Mental Illness (NAMI).

> We started stopping by their meetings after work, and we quickly found out that, in spite of us having a child who had problems, there were so much more serious ones than ours. We ran into parents with two children who are schizophrenic, and they tried desperately to keep them at home and take care of them, and they went broke and the kids are in jail. That's when I first started finding out about the issue, how parents were losing control of their children physically, and they were in jails because there wasn't any place to put them, ultimately.

**"People don't have the supports to come out of the hospital."**

**—Diane Manning, United Health Services**

Now a citizen at large, Domenici is largely credited with getting the mental-health parity bill passed last year under the umbrella of the stimulus package, but only after a 12-year fight. The bill stops insurance plans from discriminating against those with mental illness through the practice of charging higher deductibles and co-pays and by imposing lower spending limits than is the case with physical ailments. Though not as broad as originally envisioned, this bill is one step toward addressing serious problems in a fragmented system of care made up of public-sector, nonprofit, and private players.

Michael Fitzpatrick is the executive director of the national office of NAMI. According to Fitzpatrick, the national office is connected to 52 state offices, counting Puerto Rico and the District of Columbia, and 1,100 local chapters. These state and local groups are made up largely of volunteers, including those who struggle with mental illness and their family members. These chapters provide peer support and education to those affected by mental illness and conduct advocacy to promote a more rational system of care.

In support of local efforts as well as its aggressive national agenda, NAMI's national office recently released the *Grading the States 2009* report, the second installment of a series that explores by state and by service the system of care for adults with serious mental illness.

It is a complex picture, Fitzpatrick asserts. "One of the things my medical director said as we were preparing the report is that you could have a community where the pieces were there and people could find treatments and there was a workforce that was trained and ready, and then you'd move 100 miles to the east and find a similar community with similar demographics, and there were very few services in place. There tend not to be coherent plans."

This is a fairly accurate portrayal. Connecticut received a B from NAMI—the highest grade awarded in the NAMI report and a grade awarded to only six states—but Diane Manning of United Mental Health Services says that, even with its acknowledged strengths, the state's system is fraught with gaps in terms of outpatient services—for pre-crisis and post-hospitalization—many of which are provided by nonprofits.

"That's where the waiting lists are, and they're getting longer and longer and beginning to back up the hospitals because people don't have the supports to come out of the hospital," Manning says. "It's also backing up the emergency rooms. There aren't the supports to help people maintain their medications, maintain their apartments, remember to get their food; it's just not happening." Frankly, she says, "if you get to the point where recovery seems to be on the horizon, that's about the last time you see a community support."

Still, it's worth remembering that Connecticut received a B from NAMI, while Wyoming descended from a D in 2006 to an F in 2009. Anna Edwards is the executive director of Wyoming's state NAMI office. Edwards believes that the system of outpatient care in Wyoming is pretty good but that one of its most serious problems is the lack of voluntary inpatient care. "All the limited number of available beds are taken up by involuntary commitments," Edwards says. "There is one state hospital and a few smaller hospitals with four or five beds, so we have been pushing for more services to be available in people's own communities so they don't need to be shipped across the state or to another state to get care." Edwards says that NAMI Wyoming has worked to increase access to voluntary commitments, but it is also trying to change two other aspects of the laws on hospitalization.

In Wyoming, residents have to pay even when they are involuntarily committed. If a patient can't afford care, state hospitals just write this off and bill the state, but counties are billed for the first 48 hours and the state pays the remainder. "A lot of times, the counties don't want to pay, so collection agencies are called or liens are placed on the houses of people who were recently released," Edwards says. "There is also a loophole that we would like to close in the statute that could allow counties to sue people who have been involuntarily committed."

NAMI also wants to require the state to provide transportation for patients being released from hospitals. "We're very rural, and we don't really have a bus system. People are being released in very remote locations with no way home," Edwards says.

NAMI Wyoming interacts with local chapters across the state to provide support for its programs and engage them in advocacy. The composition of the state board that oversees Edwards is 40 percent those who are mentally ill and 60 percent family members.

Edwards's description of her introduction to NAMI explains the organization's resilience and power.

> I was new to the whole thing, and they did this training called "In Our Own Voice." It is one of our regular programs. . . . Anyway, there were around 15 people with mental illness in the room, and they ran the gamut of different kinds of diagnoses. And listened to these people courageously get up and tell their story, knowing that we would be asking them to do this in front of their peers and their communities. As I sat there and listened to each person do their presentation, I saw the confidence it built in each of these people, and I said, "Wow, this is why I am here."

**Given state deficits, NAMI's local and state chapters will probably do more blocking than building in the near term.**

Fitzpatrick says NAMI is poised to stay abreast of the developments in the national health-care debate in Congress. "There may be some opportunity to expand the law further," Fitzpatrick says. But he expects that over the next few years the bulk of the organization's advocacy work will involve monitoring the implementation of the parity law and advocacy for more complete systems of care in the states. The monitoring of implementation will begin in January when regulations are released and insurance companies establish their compliance programs. "Our job," says Fitzpatrick, "is to make sure that the legislative intent becomes reality." As anyone in public-policy reform knows, this is a grinding and often long-term job. One of NAMI's overarching goals is to increase the reach of Medicaid funding for people experiencing mental illness and increase access to robust coverage for the underinsured.

In the "battleground" of the states, where most mental health budgets have been cut this year, NAMI's local and state chapters will probably be "blocking more than building" with regard to the systems of care because state deficits have grown and mental health budgets are likely to worsen in 2010. "Our focus has to be on how to build coalitions in each state that will be in the top five or six advocacy voices in terms of credibility and visibility," Fitzpatrick says.

## Culture Shock: Arkansas Public Policy Panel

*Little Rock, Arkansas*


The Arkansas Public Policy Panel has a budget of $700,000, approximately 40 percent of which is derived from the W.K. Kellogg Foundation's Mid South Delta Initiative (MSDI). It also receives substantial support from AmeriCorps. VISTA provides seven of the organization's 16-member staff. For a budget of this size in Arkansas, the Panel is a substantial organization.

The Panel's 501(c)(3) work includes place-based organizing primarily in the largely rural, low-income communities of southern and eastern Arkansas and statewide organizing on a few key issues. The "other side of the organization" is the (c)(4) coalition the Arkansas Citizens First Congress, which is made up of 40 organizations.

But the heart of the Panel's work is its place-based organizing. "We help local communities come together, develop a vision of what they want to do in that community, create a strategic plan, and then implement an action plan to do it," says Executive Director Bill Kopsky. "Our focus is on building sustainable community infrastructure in those places, because we view that as key to building leadership and long-term social-change capacity across the state."

> "Our focus is on building sustainable community infrastructure."
>
> —Executive Director Bill Kopsky, Arkansas Public Policy Panel

When asked for an example, Kopsky tells this story:

> We helped organize the Gould Citizens Advisory Council [GCAC] five years ago. Gould is a small town with 1,200 residents. At that time, it was in bankruptcy, had a failing water system, owed back taxes to the IRS, lacked a police force, and some weeks even went without basic trash service. City officials were pretty unresponsive to resident concerns, so GCAC put together a platform for city office to support. They recruited several of their own members—most of whom never imagined themselves in elected office—to run. They held a candidate forum, where all of the candidates had an opportunity to make their case and respond to residents' questions. Then they chose a slate of candidates who committed to support their agenda, and they worked hard to promote those candidates.
>
> Long story short, they won five of seven seats, and now some of the serious problems in Gould are being addressed. Not everything is solved, but the improvements are dramatic. Most importantly, they saw that they can get involved and improve their community.

The Panel is one of MSDI's newest grantees, but it is coming in just as the Kellogg initiative, which is scheduled to end in December 2010, winds down. "Everyone is waiting to see what Kellogg will do with the momentum," Kopsky says.

> We've made serious progress with their investments. but it's not sustainable yet. They engaged a lot of grassroots and nonprofit people in an Arkansas design team that worked really hard to develop plans, but it's unclear what will become of their work. Local action by the design team members prompted the Kellogg Foundation to make an endowment gift of over a million dollars to the Arkansas Community Foundation, but it's still unclear how that gift aligns with the other work Kellogg has done in the region.
>
> Kellogg started the MSDI program with the goal of transforming the quality of life for low-income residents of the Delta. I don't think an objective assessment of really what they accomplished in their 10 to 15 years would say that they've done that yet. Transformation like that takes a long time, and it takes sustained engagement, the right strategy, and the right mix of partners to implement the strategy. If they're done and they just leave, it could actually do more harm than good. It could be yet another initiative that's come into the region, raised expectations, and then failed to deliver. And there's only so many times that can happen before folks just get sick of seeing anybody from outside. The best thing that we got out

### East Coast Entrepreneur: United Services

*Dayville, Connecticut*


In its reporting on the Age of Obama series, the *Nonprofit Quarterly* has been struck by the extent to which nonprofits' experience of the downturn is tied to these organizations' geography and field. These variables are very much at play at United Services. But so too is the CEO's comfort with financing schemes and her drive to build capacity.

Diane Manning is the CEO of United Services, a comprehensive behavioral health center. The organization covers the 21 towns of northeastern Connecticut, a sixth of Connecticut's land area, but some of the most sparsely populated regions of the state. Over the past two years, United Services has grown by approximately 20 percent. "Our facilities had become overcrowded, and we couldn't meet community need anymore," says Manning, who has an MBA in health-care finance. "We invested in buildings and in computerization and technology so that we would be better able to serve a growing number of people." In 2009, United Services saw a 48 percent patient increase compared with 2008.

The growth was financed in ways that were "a bit creative," says Manning, who describes making use of U.S. Department of Agriculture funding, among other sources.

> It was very clear, based on the kinds of services we were expanding, that we would be able to cover the financing costs with the increased business that we knew was out there. We've never been an organization to sit and wait around for the state to bail us out of anything. We're usually a step ahead of them. So about 18 months ago, we put the entire organization on an electronic medical record and billing system. It cost us about a half million dollars to put 250 [staff] live. This was also financed on a three-year lease buyout.

United Services—which is supported by a broad mix of funding, including Medicaid, Medicare, third-party insurance, and state contracts—is a sophisticated agency with advanced systems, including its new electronic records. This capacity has allowed the organization to qualify as an enhanced-care clinic, which brings the benefit of a higher reimbursement rate. They have also recently improved their facilities. Many patients who make up this increase suffer from an anxiety-based depression and other situational ailments that, if left untreated, can escalate.

Meanwhile, various partner agencies involved in prevention, rehabilitation, and other services surround United Services. These agencies, says Manning, are funded by state grants and contracts that have not received rate increases and suffer from capacity issues. This is because the state of Connecticut has elected not to use Medicaid money for case management, social rehabilitation, and residential supports. This puts the entire system of care at risk.

The organization is not allowed to build a reserve from public dollars, and most of the money from its limited public fundraising goes to less well-supported efforts, such as its domestic violence program. As a result, the organization has almost no reserve. Prospective reimbursement tempers this situation somewhat. Manning explains that the state now has a prompt payment requirement that resulted from a bad track record of late payments.

> And [the state] didn't pay the nonprofits, even though we had contracts in place. A lot of agencies couldn't make payroll because they had no line of credit and no reserve, and the legislature put some legislation through that said that they couldn't do that any longer—that they had to pay prospectively. The big variable, of course, is that you have to have a contract in place, and if the state agency is slow in getting your contract in place, you don't get paid. Our largest state contractor is very, very aware of the impact of not moving money on their providers, and they're really good about making sure the contracts are in place. But that's not the same in every state agency. We deal with six of them. Two of them are really good, and four of them are slow. . . . I have enough fee income. So as long as that keeps moving, we are able to manage.

of that process was the relationships and the networks that were built among the grassroots people that they engaged. There were a lot of problems with the way they implemented their Delta strategy, but they did create forward momentum. The question is, what comes next?

Kopsky believes that funders and national advocacy groups are confused about how to effectively approach Arkansas, whose nonprofits are relatively small.

"We either get ignored or experimented on."

—Bill Kopsky

One of the things that we get in Arkansas all the time is, "You guys are too small for us to invest in you. We want to give a $2 million grant and not a $200,000 grant because we don't have the capacity to service 100 $200,000 grants; we want to give 10 $2 million grants." Well, that's a fine sentiment, but it really limits who you can invest in.

In conversation a few years ago, a funder in New York, who doesn't understand the Arkansas context, offered us a $100,000 grant for one year and wanted us to use it to transform the economy of the Delta. To his credit, what was in his head was that he could get us the $100,000. He knew that his board would never in a million years sign off on a small state like Arkansas and that they wouldn't see the strategic advantage of it. He could give us $100,000 without his board's approval, but it would have to be to accomplish something that was audacious. We just told him we couldn't even come close to accomplishing what he was suggesting, and we had to walk away. And when they do invest, they expect these dramatic transformations to happen in two or three years on very modest budgets and very narrowly focused strategies. It never works, and people act as if it's a great mystery what's needed, but it's not a mystery at all.

In 1988 the Winthrop Rockefeller Foundation commissioned a report from Grassroots Leadership on what makes social change so hard in Arkansas. Arkansas has a ton of assets that should make social-change efforts easier than many other places. . . . Grassroots Leadership titled their report *Building Constituency*, and the basic premise is that Arkansas *does* have all of this incredible potential to make progress and even influence the country—but it lacks the community infrastructure and capacity to seize those opportunities. What will transform Arkansas, and most of the South, is building that community infrastructure of grassroots democracy organizations: *building constituency*.

But no one wants to read a 30-year-old report with someone else's ideas. They want something new and dramatic. We either get ignored or experimented on, and it's frustrating. The key to progress in Arkansas—and what we focus on—is building the capacity of grassroots organizations to influence what happens in their own communities and connecting them to work together in diverse coalitions to influence what happens in the state.

Kopsky also believes that national advocacy groups are unsure about how to work with Arkansas.

National people are always interested in affecting the way our Blue Dog Democratic delegation is going to vote on health care, employee free choice, climate change, and other key legislation. They show up three months before a vote and expect to have an impact, and they're usually frustrated before they leave.

What moves policy in Arkansas is long-term relationship building, authentic local voices, and infrastructure for those relationships and voices to coalesce and mobilize. I think that's what a lot of national groups haven't yet understood about the South. People say, "Who cares about a city of 1,200 people like Gould?" But what they don't understand is that the people of Gould, while developing their city, also developed a relationship with their state legislator and with the Citizens First Congress coalition they encouraged him to support. . . . The capacity of our coalition partners, like GCAC, has the biggest impact on how much we can influence state policy makers.

The local organizing informs the state coalition and supplies the bulk of its power, and the state policy coalition informs local activists and adds strength to their local organizing.

Kopsky asserts that too many want to find shortcuts to this process and aren't willing to stick around for the long haul to address the systemic problems that plague Arkansas communities.

> A lot of progress can be made in the South, but it's going to be a little bit slower, and it's going to be with a different strategy than your typical mass mobilizations, and it's going to center on building relationships, constituencies, and authentic infrastructure in communities so that they can then speak for themselves. Some communities in Arkansas still have basic voting-rights problems or entrenched poverty or bad water supplies or low-performing and hostile schools, and many of them haven't had positive experiences trying to make change in their communities. So organizing to address those core local problems and connecting them to larger state and regional movements has to be the strategy. Then you can move any policy the base wants to support.

Most of the Panel's non-Kellogg money comes from a small group of small foundations that knows the South well. None of these small-foundation grants are likely expandable.

When asked about how the organization would handle the drop-off of funds connected with the Kellogg initiative ending, Kopsky says:

> We know we need to significantly increase our grassroots fundraising. Actually, two weeks ago, something happened that was amazing. A local contributor who has been giving us very generously about $5,000 a year called and asked if we had staff holes that we couldn't currently fill, and I said yes. And they said, "Well, if we gave you $40,000 for two years—so $80,000 total—would that help?"
>
> So we have the offer of this gift on the table, and we're trying to figure out how we can leverage it. Because ultimately, our long-term goal is to have 30 to 40 percent of our budget coming from grassroots donations, but it's going to take some time.

Predictably, the Panel's prospects in this regard follow a different trajectory from that in many other parts of the country. "The Arkansas economy doesn't experience the growth that other states experience during good times, and recessions tend to get here late," Kopsky notes. "So our economy really hasn't been as deeply affected as other areas yet. Our state budget's not in terrible shape like many other states. The economy is certainly hurting here, and the numbers are starting to get much worse. We start hurting here later than other places, but unfortunately, we're also likely to experience the recovery more slowly as well."

## Local Treasure: Think New Mexico

*Santa Fe, New Mexico*


Think New Mexico is a small nonprofit, a state-based public policy think tank with a no-nonsense results orientation. Its size, focus, and legislative track record—in short, its claim to have "bang for the buck"—suggest that the organization stands a high probability of surviving the recession not only unscathed but with additional measurable accomplishments under its belt.

A decade old, Think New Mexico is a powerful engine for social change. Founder and Executive Director Fred Nathan focuses on effective advocacy and the promotion of achievable solutions to statewide problems.

Part of the reason for the organization's success is its persistently bipartisan approach. "Most think tanks are way over on the left or way over on the right," Nathan says. "But one way that we are different is that we believe that in a state like New Mexico that's 49th or 50th in too many national rankings, our focus ought to be on solutions rather than ideology."

Consistent with that philosophy, the organization has a board of directors made up of a dozen prominent Republicans, Democrats, and Independents from New Mexico. "Our board members come from across the political spectrum," Nathan says.

> We've had more than 30 board meetings but have made all of our decisions by consensus without a single dissenting vote. Even though the members of the board come from sometimes diametrically opposed political viewpoints, the focus of our organization is moving the state forward in the national rankings where New Mexico often performs poorly. In this way, we all share the same agenda, so choosing our annual policy project leads to lots of discussion, but is always done by consensus.

**The group has successfully led campaigns that have resulted in landmark laws in a half-dozen policy areas.**

But this powerful group does not just sit around the tank and think. "The other way that we're different," Nathan observes, "is that when we issue a policy report, we don't just cross our collective fingers and hope something good happens. We write legislation based on our research, recruit the sponsors, and spearhead the advocacy effort for its passage." The group has successfully led campaigns that have resulted in landmark laws in a half-dozen policy areas.

> Think New Mexico tends to take up one new issue a year, though sometimes legislation will take a few years to pass. The first initiative was to make full-day kindergarten accessible to every child in New Mexico. The second successful campaign repealed the tax on groceries. The third created a strategic river reserve to keep some water in our rivers, the fourth was to reform New Mexico's lottery to cut its bloated overhead and redirect those resources to full-tuition college scholarships for deserving high-school students. And last year, Think New Mexico led the campaign to reform title insurance to make it more affordable for people to buy a home or refinance a mortgage.

This year the organization has two campaigns: (1) to move the state toward building smaller public schools rather than "supersized dropout factories" and (2) to ban political contributions from special interests and lobbyists.

To get all this done takes approximately $400,000 a year, two-thirds of which comes from local foundations and a third of which comes from individuals, which the organization refers to as "social investors" rather than "donors." (Recently, Think New Mexico received a large grant from the Kellogg Foundation—which was only the second in the organization's history from a national foundation.)

Nathan says that Think New Mexico's funding is relatively stable, though it has decreased slightly recently. "Every year of our existence, the number of our contributors has gone up, But in 2008, that number went down—by only 10 donors—from 624 to 614," Nathan notes. "If it had been a normal year, we would have expected it to be closer to 700; however, the total dollars contributed were about the same as they were 2007. Same thing with the foundations: instead of the steady growth that we had been experiencing, it was flat. But given the overall state of the economy, we were relieved."

The organization has no reason for immediate worry, because it has twice its annual budget (or $800,000) split evenly between liquid reserves and investments. This level of savings is unusual, but the fact that Nathan's salary is a modest $81,033.75—a figure he reeled off the top of his head—might explain how these reserves were accumulated.

In addition to Nathan, the staff consists of three others. There has never been a development director, and Nathan says there never will be. He says that Think New Mexico is not interested in growing the staff. "That is not how we measure success. We're where we want to be in terms of our size," Nathan says. "The staff is extremely talented and hardworking, and we have been able to attract a lot of free and low-cost interns." Despite a serious budget deficit at the state level, Nathan does not believe that the organization's campaigns will be negatively affected this year. "Our effort to ban political contributions from special interests and lobbyists may actually benefit from the tight budget situation, since the reforms cost nothing to implement and save taxpayer dollars that are wasted on corruption."

Nathan is very much a founder: Think New Mexico started in his bedroom, and Nathan worked without a salary for nearly a year with the blessing of his "long suffering" wife. He knew he had to fundraise to build the organization and launch the first campaign, so he went "where the money was."

"I was so unbelievably naive. I thought that what nonprofits do is write letters to the Ford Foundation and the Rockefeller Foundation, and then they send you money," Nathan laughs.

> But instead of grants, we got lot of rejection letters, including one from [a major foundation in New York] on our first initiative, which was to make full-day kindergarten accessible to every child in the state. I had been getting rejected for six months, so, I called up the program officer who signed the letter and said, "I got this rejection letter, and I was hoping to get some advice," and he said, "Well, I think I remember your letter."
>
> He said, "You're in New Mexico, right?" and I said, "Yeah," and he said, "And you're pushing full-day kindergarten?" I said, "That's right." And he said, "And you're a brand-new organization?" I said, "That's correct." And he said, "Well, I think you should feel very good because, as I recall, you got to the third round in our process." And I said, "Well, how many rounds were there?" And he said, "Seven." And I said, "Well, actually, I don't feel so good about it. I was just kind of hoping you could give me some pointers." And he said, "Well"—and I'll never forget this conversation—he said, "Full-day kindergarten is really not that sexy."
>
> After a moment, I blurted out, "I don't remember that being one of the grant criteria." And then he said, "Well, in New Mexico, you're sort of out of sync with the rest of the country." I looked at his stationery to see where he's writing from, and he's writing from Madison Avenue in New York City, and I'm thinking to myself, "Really? Am I the one who's out of sync here?"
>
> I learned the hard way that, in terms of grantwriting and fundraising, it is much wiser to focus on people that know you and trust you rather than these big national foundations. We got lucky with our full-day kindergarten initiative. We got it through the legislature and the then-governor—who had threatened to veto the bill—changed his mind and signed it at the last minute after it had received a lot of media attention. That helped to bring our work to the attention of local founders, and we have been able to build some strong relationships around our successive campaigns. I often wonder what would have happened to us if the governor had vetoed our full-day kindergarten legislation. My guess is we wouldn't be doing this work.

For advocacy organizations across the nation, the struggle is to connect local efforts with a network of local, state, and even national partners that can bring force and longevity to local initiatives. Now, with fewer dollars and greater need in their communities, these organizations face a greater uphill climb to connect local efforts to networks of support.

**"It is much wiser to focus on people that know and trust you rather than these big national foundations."**

**—Fred Nathan, executive director, Think New Mexico**

So too, for many of these organizations, the specifics of geography and local circumstances have dictated the success of initiatives and fundraising, the ability to create a local network, and, to some extent, the degree to which these organizations have been able to survive and thrive in tough times. For these organizations located beyond the coastal areas of the United States, local conditions and the trust and familiarity of local relationships will likely continue to drive success in their communities—far from the watchful eyes of national foundations in the major cities. The question becomes, when will those on the national scene tune in to these organizations' added value in their communities?

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# Secret Code:

## *The Message to Nonprofits in the Federal Budget*

by Rick Cohen

When Napoleon Bonaparte's army marched into Egypt in 1799, his military engineers discovered engravings that unlocked the meaning of ancient Egyptian hieroglyphs. Unfortunately, no comparable Rosetta Stone exists to interpret the deep meanings for nonprofits of language in the federal budget.

But nonprofits know that the language—the text and subtext of the federal budget proposals of the White House and congressional committees—is as important as the dollar figures recommended and approved for specific programs. Savvy nonprofit budget readers have to be attentive to semantic and contextual cues in the following dimensions of government program descriptions.

Here are the budgetary hieroglyphs to translate:

**Direct funding.** Since the mayors' uprising against the War on Poverty's establishment of independent community action agencies, the nonprofit struggle has concerned whether nonprofits can directly apply for and receive federal grants. Frequently, grant programs require a city or state government sign-off. Despite the notion of "one big happy family," where governments and nonprofits work together, in many localities, that's hardly the case. Governmental jurisdictions often loathe the idea that funds might reach entities without city hall approval and de facto control.

In the fiscal year 2010 budget, the pushback against nonprofits is evident in various places. Consider the Senate Appropriations Committee language regarding the Department of Housing and Urban Development (HUD) Choice Neighborhoods program. Explicitly, the appropriators proposed setting aside a majority portion of the program for public-housing authorities, even though the program is designed to work explicitly with public-housing communities. It doesn't take much to see this as evidence of public-housing authorities saying to Congress, "Don't forget public-housing authorities [PHAs], and don't get carried away with nonprofits, many of which have often been at odds with the management of neighboring PHA developments.

But there are still some venues where nonprofits do get to operate like grown-ups that are no less responsible than state and local politicians. The widely admired Community Development



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Financial Institutions fund at the Department of Treasury and the embattled-but-still effective Legal Services Corporation are two federal initiatives that other units of government might love to control but, at this point, only stand back and admire or carp on. Similarly, at the Department of Health and Human Services, the Community Economic Development program run by the Office of Community Services has been a medium-size long-standing program that allows nonprofit community development corporations to apply directly for funding.

**Nonprofits as organizations.** Spurred by the Serve America Act, the Obama budget proposal for the Corporation for National and Community Service (CNCS) places a strong emphasis on volunteers or, perhaps, below-living-wage stipended volunteers as the preferred mechanism for building and staffing nonprofits. Every federal contracting nonprofit knows that the federal government doesn't pay groups for the full cost of service delivery. Low-wage, temporary employees won't make up the cost shortfalls in federal contracting.

**Community service is not a replacement for a nonprofit capable of paying decent salaries.**

The CNCS budget provides two things: (1) a flood of stipended volunteers as the staffing message to nonprofits—or, better put—smaller nonprofits and (2) an absence of capacity-building money, since the White House attempted to delete the Nonprofit Capacity Building Initiative (NCBI) fund that was part of the Serve America Act. At the time of this writing, the Senate seems to have restored NCBI, but that does not undo the White House message. Community service is not a replacement for a well-funded nonprofit capable of paying its staff decent salaries. Decent pay, in turn, would prompt staff to consider nonprofits and others as a career path, not as a temporary waystation for interchangeable, untrained young people to hang their hats while they burnish their résumés. If the signal is that important jobs in the private sector warrant good salaries but nonprofit jobs can be filled by a merry-go-round of underpaid temps, it should be seen as a problem.

In fact, this federal budget has shifted some organizational capacity-building resources that previously were tucked away in various federal agency budgets. The "CHDO TA funds" (CHDO means Community Housing Development Organization, and TA stands for technical assistance) that constituted a significant resource for nonprofit affordable housing developers in the HOME program have been reconstituted under HUD Secretary Shaun Donovan to address foreclosure counseling, but not the technical and organizational capacity-building work that has long been the mainstay of this program. Asking nonprofits to be delivery tools for federal agencies is entirely appropriate, but it has to be done with quality organizational development as well as technical assistance and training. Otherwise only the big nonprofits get to participate, while the small nonprofits struggle and succumb.

**For-profit loophole.** In this era of blended nonprofit and for-profit structures, nonprofits have to be attuned to budget language that slips for-profit eligibility into what may be intended for nonprofit programs. In the $34 million part of the Strengthening Communities Fund program, which was established in the stimulus legislation, the Department of Housing and Human Services request for proposal (RFP) invites for-profit organizations to apply for the million-dollar grants to be capacity-building technical assistance providers. It's not enough that the White House shaved a portion of the $50 million appropriation to run through local and state governments rather than nonprofits, but the recruitment of for-profits as "lead" intermediaries is explicit in the RFP.

The RFP is an early hieroglyph for interpretation of the budget. The same goes for some of the administration's other decisions. HUD's August 26 announcement of $50 million in technical assistance and training funds for communities and nonprofits acquiring and rehabilitating foreclosed homes was noteworthy. Despite a nation full of remarkable nonprofit housing developers and intermediaries, the largest awards—more than half of the national award total of $44.5 million—went to for-profit technical assistance providers. This is despite the great track record of nonprofit-developed housing with lower delinquency and foreclosure rates than for-profit developments and traditional and effective practices of pre- and postpurchase counseling.

Nonprofits shouldn't assume that they are the only potential providers. But when they aren't given their due or when programs open creaky doors to for-profits for less-than-compelling reasons, nonprofits should take notice.

**Earmarks.** Read not only those earmarks recommended by House and Senate appropriators but also those from the White House. What kinds of nonprofits get through the queue because of connections with powerful legislators? In this new era of some—albeit insufficient—transparency for earmarks, at least budget-savvy readers can get a handle on whether the earmark recipients are those with some legitimacy in their fields or, alternatively, are simply "You must be kidding" groups.

In addition, given the nation's tendency to equate size with effectiveness, determine whether the earmarks include room for smaller nonprofits. The importance of these organizations to their communities and to the democratic potential of the nonprofit sector should not be cavalierly dismissed. Running federal money only through big groups is a bad message to send to the 90 percent of the sector with revenues and assets of less than $1 million.

Equally important, nonprofits must ensure that programs that nonprofits typically advocate for and use—such as the Community Development Financial Institutions program, Community Development Block Grants, and others—do not find their long-sought budget increases given away as earmarks to insider recipients. When that happens, the results are pyrrhic budget victories and program increases that are given away to groups that have inside tracks when they should really be made available to the nonprofits that submit competent, competitive proposals.

There's more to look for in budgets that affect nonprofits. But one thing is clear. We have to look for more than dollars in the budget to understand the federal government's intentions for the nonprofit sector.

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Trend ALERT

# The United Way:

## *Missed and Missing Goals*

by the editors

One of the most important barometers of the recession's impact on nonprofits—and how nonprofits have adjusted to this increasingly terrible economic downturn—can be found in the 1,400 affiliates and chapters of the United Way. During the past few months, the *Nonprofit Quarterly*'s NPQ Newswire has covered an apparently new practice among United Way campaigns. United Ways in Sudbury, Ontario; Stanly County, North Carolina; Belleville, Ontario; Lee County, Alabama; and Kansas City, Missouri have eschewed the long-standing tradition of establishing fundraising targets for their annual campaign in favor of no-target or no-goal campaigns.

**Ditching fundraising targets is a major cultural shift in the United Way system.**

Ditching the common practice of setting a fundraising target is a major cultural shift in the United Way system. Explanations of the shift vary among agencies. In Sudbury, Ontario, the UW has substituted a target of increasing the number of individual donors from 9,000 to 12,000 in place of a dollar goal. Oddly, this is not because of poor campaign totals in 2008; Sudbury actually did well, surpassing its 2007 total by raising $2.4 million. But entering 2009, the locality faces layoffs at two major employers, thousands of job losses in the mining supply and service sector, and labor turbulence between local employers and locals of the United Steelworkers and others.

### New Times, New Strategies

The new campaign strategy in Kansas City is similar, targeting the recruitment of 25,000 new donors rather than a dollar-based fundraising target. Obviously relevant is increasing unemployment in the Kansas City metro area, which between July 2008 and July 2009 increased from 6.0 percent to 8.9 percent. A spokesperson for the United Way of America described the Kansas City and Sudbury no-dollar goal strategies as "a growing trend."

In Brown County, Wisconsin, home of the

Green Bay Packers, the United Way traditionally set its campaign goals in the spring or summer, but this year it announced it would delay setting a goal until the fall, after soliciting feedback from local employers about economic and employment conditions.

Obviously, in a system of 1,400 affiliates, practices vary widely. But in the midst of a recession, the manner in which a United Way determines how to set a campaign target is itself a challenge that may elicit creative thinking. Baldwin County, Alabama, for example, announced that it reached its target of more than $1 million last year, but it did so by extending the campaign from its usual fall wrap-up and accounting to January 2009. Whether donors who were tapped in early 2009 will be available for contributions to reach this year's $1.1 million target is anyone's guess.

Last year the United Way of Central New York fell $500,000 short of its target and has set its 2009 campaign target at the amount it last raised: $8.5 million. This is now a fairly common strategy, but last year the recession had not hit the depths that it has now, particularly in terms of joblessness. In July 2008, during last year's United Way campaign, the unemployment rate in metro Syracuse was 5.6 percent; as of July 2009, unemployment had grown to 8.1 percent. If last year's campaign fell short in reaching $8.5 million, how can it hit this number this year, when unemployment has increased by one-third? In Central Alabama, serving the Birmingham area, the goal is also last year's total of $37.26 million, despite the one-year doubling of the unemployment rate to 9.9 percent. As a United Way executive explained, the organization will have to raise more money from new donors to make up for donors who have lost their jobs.

This raises real questions and perhaps concerns about where these new donors will come from. Over the years, the United Way has moved further afield from its base of workplace giving, at times angering affiliates with strategies that directly compete with the fundraising strategies of community groups.

Some regions, however, have clearly taken their local jobless conditions into account.

- Greater Lorain County, Ohio—where unemployment now hovers near 14 percent—has reduced a $2.6 million goal down from last year's $3 million goal (on which only $2.83 million was raised).
- Forsyth County in Winston-Salem, North Carolina, where unemployment has increased from 6.3 percent to 10.3 percent, reduced its goal from $18.4 million to $17 million.
- Knoxville, Tennessee, set a target of $11.8 million, a reduction from $1 million from the previous year since unemployment has increased from 5.6 percent to 9.0 percent.

In any case, in regions such as Columbus, Ohio, the task of setting a reasonable United Way goal is increasingly an exercise in hitting a moving target. In December the Central Ohio United Way said it would be $1.5 million under its campaign target and, in March, $3.5 million, but the final total was $4.3 million short of the $56.1 million campaign target.

The task of setting a reasonable United Way goal is increasingly an exercise in hitting a moving target.

During the upcoming campaign seasons, it remains to be seen how the United Way will fare. In some areas, campaign totals are increasing or steady, but many other factors are at work in terms of the United Way's impact on community organizations and communities: including a narrowing of focus, growing numbers of affiliates and grantees that conform to the national impact agenda, and individual givers' increased use of the donor designation option.

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# Foundations Invest in For-Profits

by the editors

In tracking the behavior of the nation's larger foundations, the *Nonprofit Quarterly* has identified a growing willingness to invest charitable dollars through program-related investments (PRIs) and mission-related investments (MRIs) in for-profit organizations.

## For-Profit Grants Gain Traction

We covered this impending trend in an interview with Ralph Smith of the Annie E. Casey Foundation in *NPQ*'s Winter 2008 issue. In the interview, Smith suggested that foundations should become more "sector agnostic" and open to more socially beneficial financial and program interactions with businesses. The area of foundation PRIs—usually loans and loan guarantees that count toward foundation minimum-payout requirements—is one obvious venue for increased foundation support of profit-making ventures. Recently we noted new examples of PRIs granted to business firms from notable foundations.

Reportedly a new approach for the organization, the Bill & Melinda Gates Foundation has begun making loans and loan guarantees through PRIs. Interestingly, Gates is willing to use PRIs for for-profit ventures and risk ensuring that their use remains fundamentally charitable, as in this description of some of the announced PRIs: "Its investments so far include $20 million to a German company to expand banking services for entrepreneurs and low-income groups in Africa, $20 million to an international consortium to boost commercial microcredit lending in Africa and Asia, and an $8 million equity fund to invest in health-related ventures, such as distribution of bed nets to protect against malaria in Africa." In the United States, its planned PRI portfolio includes support for charter school expansion. The foundation has committed a total of $400 million in planned PRIs.

In an article about investments in the expanding biotech industry of Maryland, it went little noticed that the largest investor for BioMarker Strategies, a diagnostics company, was the Abell Foundation in Baltimore, which gave $1.7 million. The willingness of Abell to support one such firm highlights the notion that foundations can use PRIs or MRIs to help local economies such as Maryland's recover from the economic downturn and support new economic development ventures.

## Problems with PRIs, L3Cs

But these socially conscious but profit-motivated entities create definitional problems as well as real questions about how they can coexist with the nonprofit sector. Low-profit limited-liability corporations (L3Cs), for example, are for-profit entities whose social mission ranks higher than their profit objective. Foundations are attracted to L3Cs because in theory these foundations can make loans to them (or PRIs) much as they do to 501(c)(3) public charities.

Rob Collier, the CEO of the Council of Michigan Foundations, advocates L3Cs but notes a lack of definition as to what constitutes a "socially beneficial purpose" to characterize these organizations. Even among the lists of approved L3Cs in various states, there are several whose socially beneficial purpose is difficult to discern. Crain's, a business media company, cites a problem that *NPQ* noted early on: some L3Cs might create business ventures that compete with nonprofits, as is the case with the new Michigan IT L3C, Ardent Cause, and the long-standing Michigan nonprofit NPower.

Although L3C advocates cite L3Cs' ability to attract different kinds of investment from various categories of investors, one L3C promoter made clear what L3Cs are really interested in:"If we're going to be 100 percent honest, this advantage of foundations being able to invest in these efforts was the impetus for looking at L3Cs." While this was unsurprising to us, what did surprise was information that the Council on Foundations was pursuing national legislation that would basically establish L3Cs as eligible for PRIs. *NPQ* was told that the council had dropped its request for national legislation and was instead waiting to see how the IRS would deal with proposed PRIs for L3Cs. The implication is that federal legislation would deal with some of the questionable L3C social-benefit purposes and undefined accountability and transparency issues.

Even if a foundation does not intend to invest in a for-profit, the current environment may more likely lead charitable donations down that path. The Knight Foundation, for example, gave $1.1 million to EveryBlock, an entity that aggregates and provides news feeds for local news. The terms of the EveryBlock grant required that the service be open source and that it release the code that powers the site so that others could use it free for their communities.

But after the conclusion of the grant, the founder of EveryBlock sold the entity to MSNBC. As a result of the sale, MSNBC required open source technologies to be used only *prior* to the disposition in June 2009, and after that date, future improvements to EveryBlock will not necessarily use open source technologies. According to the Neiman Journalism Lab, the Knight spokesperson described the EveryBlock sale as a "multimillion-dollar deal," with the implication that EveryBlock's founder came away with a generous portion of the sale proceeds. Knight wants its grant-based innovations picked up and supported in the market, but in the future, the use of grant money may require a different kind of accountability. "When a Knight-funded project is acquired in the future," says a Knight foundation spokesperson, "the founders may be required to relinquish some of that money: It might be a certain percentage, it might be a certain dollar figure, it might be the amount of the grant. . . . What we're thinking about is creating another nonprofit that would receive that money, and that money would be either for the future development of open source software . . . or it might be for community news."

**These socially conscious but profit-motivated entities create definitional problems.**

This is clearly an area where ethical questions would abound and potential problems and quagmires could crop up. Expect to hear more from us in the future on foundations' investments of PRIs in for-profit alternatives to 501(c)(3) nonprofits.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 160309.

# What We Know So Far:
## *Nonprofits in the Age of Obama*

by the editors

GIVEN THE PLUNGE IN FOUNDATION ASSETS and caution among individual givers, the nonprofit economy immediately experienced the downturn. This caution among donors has only increased as joblessness has worsened and state tax bases erode. Still, some nonprofits have fared better than others. So what are some of the variables?

1. **Geography.** The economy of the state in which a nonprofit is located matters—and for several reasons:

(a) The status of the state budget affects cuts and can create late payments on contracts, delays in writing contracts for ongoing work, and other related problems.

(b) A state's unemployment level creates other problems, including reductions in direct giving and giving to United Way chapters and other federated giving vehicles.

(c) Joblessness increases service needs just as resources have been reduced. And an increase in service users is not a straightforward numerical increase.

(d) Increased joblessness also affects fees for service and enrollment in certain types of programs such as child care, senior care, and the arts.

On the other hand, joblessness may improve the financial state of other types of nonprofits, such as thrift stores.

2. **Field.** Some fields are more supported and organized than are others. Organizations that are members of robust national networks may benefit in several ways:

(a) Organized advocacy at the state and national level may have created a particularly friendly public-policy and funding environment.

(b) Networks act as conduits that inform local groups of funding opportunities, research, new program models, and so on. If they are responsive to their individual members, these networks become absolutely pivotal in the aftermath of a crisis. Fields that receive stimulus money are potentially better off than others.

3. **Overdependence on a single source.** We now know for sure that overreliance on one funding source can be the death of you.

4. **Flexibility and foresight.** An organization's flexibility and ability to adapt may be associated with its level of reserves as it enters the downturn but also with other factors, such as its ability to reorganize programs quickly enough and right-size them to the environment.

5. **Relief is not imminent.** In 2010 the economy will be worse than in 2009, and 2011 may be worse still. The precipice is upon us, and some groups have already fallen away.

6. **Philanthropic response.** Meanwhile, while groups vital to community life are at serious risk, we see the response of philanthropy as split. One segment has attached itself to large, well-funded groups, advocating the use of charitable dollars as investment in for-profit entities. Local philanthropy groups, on the other hand, are helping grantees find the right way forward. This will necessarily spark widespread innovation and entrepreneurial activity.



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# Technology Directory 2009

The following is a directory of technology providers for nonprofits.

**Access International**
432 Columbia Street, Suite B-5, Cambridge, MA 02141; info@accessint.com; www.accessint.com

Access is the trusted provider of fundraising, relationship management and membership software to many of North America's most respected nonprofits. Customers include large and small organizations alike and span the entire nonprofit spectrum. Access heralded software supports a CRM approach to cultivation and stewardship. Its organization-wide design enables all interactions and touch-points with customers to be managed from a single database. Access1 implementation methodology provides the proven structure to help you rethink processes and consider best practices to ensure you maximize all the software provides and your organization's impact.

**AccuFund Accounting Suite**
400 Hillside Ave, Needham, MA 02494; sales@accufund.com; www.accufund.com

The AccuFund Accounting Suite is designed specifically for non-profit organizations. AccuFund combines powerful reporting capabilities for the manager, including easy cross-year and inception-to-date reporting for grants, with consistent and easy-to-use screens for the data entry staff. The AccuFund core system includes General Ledger, Accounts Payable, Cash Receipts, Financial Reporting and Bank Reconciliation for one low cost, starting at $3,995. Additional components may be added as required, and include Accounts Receivable, Fixed Assets, Payroll, Human Resources, Purchasing, Requisition Management, and Allocations. AccuFund provides a complete financial solution for your nonprofit.

**Advanced Solutions International-iMIS**
901 N. Pitt Street, Suite 200, Alexandria, VA; **Contact:** John Benda; info@advsol.com; www.advsol.com

Advanced Solutions International (ASI) is the leading global provider of nonprofit software and has served the industry for more than 15 years. ASI's product, iMIS, is an upgradeable, Web-based, packaged software solution that supports a variety of non-profit business needs. Used by more than 2,500 customers world-wide and representing 30,000 staff users and millions of donors, iMIS provides nonprofit organizations with donor management and fundraising software solutions, and also supports association management software needs such as membership and customer relationship management.

**Advocacy Online**
3235 P Street NW, Washington, DC; **Contact:** Ghazal Vaghedi; Ghazal@advocacyonline.net; www.advocacyonline.net

Advocacy Online has developed innovative e-advocacy and online fundraising tools. These tools can be used to support campaigns in any language and in any country. Our company places a huge emphasis on customer support and helping nonprofits to achieve their goals.

**Allegiance Software, Inc.**
3064 49th St. S, Fargo , ND; **Contact:** Abbey Thompson; sales@allegiancesoftware.com; www.allegiancesoftware.com

(Allegiance) is a leading provider of donor management software. For more than 30 years, Allegiance has helped its customers raise more money, deepen donor and volunteer relationships, improve staff and volunteer efficiency and gain a stronger, more dynamic organization. Contact us today to discover the Allegiance difference.

**Amergent Portfolio**
9 Centennial Drive, Peabody, MA 01960-7906; **Contact:** Mark Connors; mconnors@amergent.com; www.amergent.com

Portfolio is a comprehensive, web-based, database management solution for nonprofits. Portfolio can be installed locally at the nonprofit organization or managed in an ASP/hosted environment by Amergent. Portfolio offers the advanced reporting, campaign management and complex segmentation capabilities needed by nonprofits involved in direct mail and online fundraising programs. In addition, Portfolio has complete contact management and relationship building functionality to support major and planned gift fundraising. Portfolio helps nonprofit organizations turn donors into 'Friends for Life.'

**Araize, Inc.**
130 Iowa Lane. Suite 102, Cary, NC; sales@araize.com; www.araize.com

Araize FastFund Software modules are fully integrated fund accounting software, fundraising software, and payroll management software systems designed by Certified Public Accountants to meet the specific needs of nonprofit organizations and generate FASB compliant reports. Since 1985, Araize, Inc. has provided nonprofit organizations with the ability to effectively manage their fiscal responsibilities, while reducing audit costs and increasing accountability to funding sources.

**Auctionpay**
13221 SW Pkwy. Ste 460, Portland, OR; **Contact:** Nannette Vilushis; sales@auctionpay.com; www.auctionpay.com

**Avencia**
340 N 12th Street, Suite 402, Philadelphia, PA; **Contact:** Jeremy Heffner; info@avencia.com; www.avencia.com

We develop innovative, web-based software, web services and products that use mapping technologies and geography (GIS) to solve complex, interesting, and novel problems. We have particular expertise in natural resource planning, economic development, crime analysis, real estate property analysis, and cultural resources.

**Beaconfire Consulting**
2300 Claredon Blvd., Suite 1100, Arlington, VA; **Contact:** Michael Cervino; info@beaconfire.com; www.beaconfire.com

We do website-designing development, online community-building and campaigning for nonprofits.

**Blackbaud**
2000 Daniel Island Drive, Charleston, SC; **Contact:** Timothy V. Williams; tim.williams@blackbaud.com; www.blackbaud.com

Blackbaud is the leading global provider of software and related services designed specifically for nonprofit organizations. Blackbaud's solutions include The Raiser's Edge¨, The Financial Edgeª, The Education Edgeª, The Patron Edge¨, Blackbaud¨ NetCommunityª, The Information Edgeª, The Researcher's Edgeª, WealthPointª, and ProspectPointª, as well as a wide range of consulting and educational services.

**Cathexis Partners**
6101 N. Sheridan Rd, E #34B , Chicago , IL; **Contact:** Mark Becker; info@cathexispartners.com; www.cathexispartners.com

Cathexis Partners helps non-profit and other socially minded organizations raise funds, expand house files and spread the word about their mission more effectively and more efficiently. Our services include website development (design, migrations/integrations, copywriting, implementation, CSS/template deployment), reporting, database management, IT consulting, technical support and project management. Our extensive experience in CRM and CMS software solutions can help your organization maximize the tools you have, identify gaps and find the best tool and strategies to accomplish your mission. We can also provide ongoing support for nonprofit CRM and CMS software solutions. We are authorized service partners with both Blackbaud's Kintera platform and Convio.

**Changing Our World Inc.**
220 East 42nd Street, 7th Floor, New York, NY; **Contact:** Tom Watson; info@changingourworld.com; www.changingourworld.com

Changing Our World, Inc. is the leading philanthropic services company in the country offering tailored fundraising, philanthropic services, and integrated technology solutions that combine innovation with sound fundamentals. The company's services include feasibility and planning studies, capital campaigns and major gift initiatives, development outsourcing, planned giving, online fundraising and communications.

**Click & Pledge**
2200 Kraft Drive, Suite 1175, Blacksburg, VA; support@clickandpledge.com; www.clickandpledge.com

Designed for nonprofits, Click & Pledge delivers unmatched value for its comprehensive suite of on-demand software. Here's why: Our pricing is unique. Affordable, transaction-based fees. We're easy to use, friendly and simple . . . unlike most software. Security. PCI approved fraud protection and two factor authentication. Loaded with tools: Recurring donations, event management, online shopping, detailed reporting, receipts, RSS feeds, and more. Support: Live, friendly support. Call us toll free or reach us online.

**Clifton Gunderson LLP**
301 SW Adams Ste 600, Peoria, IL; **Contact:** Richard R, Faist; www.cliftoncpa.com

**cMarket**
100 CambridgePark Drive, Cambridge, MA 02140; **Contact:** Kaijsa Kurstin; support@cmarket.com; www.cmarket.com

cMarket is the leading on-demand, online auction platform solely for organizations engaged in fundraising for nonprofit causes. cMarket services national non-profit organizations such as United Way, JCC, Junior Achievement, Catholic Charities, The PTA, and the American Red Cross.

**Consistent Computer Bargains**
2823 Carlisle Ave., Racine, WI; **Contact:** Tamara Haley; office@ccbnpts.com; www.ccbnonprofits.com

CCB is the most trusted nationwide resource for discounted technology products.

**Convio**
11400 Burnet Rd., Austin, TX; **Contact:** Randy Potts; info@convio.com; www.convio.com

Convio is the leading provider of on-demand software and services to help nonprofits use the Internet strategically to build strong relationships with constituents for driving fundraising, advocacy and other forms of support.

**Cougar Mountain FUND**
7180 Potomac Drive, Boise, ID; marketing@cougarmtn.com; www.cougarmtn.com

Cougar Mountain FUND products offer fully-integrated, affordably-priced accounting and financial management software packages designed exclusively for nonprofit organizations. The CMS FUND products allow nonprofits to easily balance multiple funds, administer various types of funds (restricted, unrestricted and operating), and they have robust reporting capabilities to keep key constituents informed.

**CYMA Systems, Inc.**
2330 W. University Drive, Ste 4, Tempe, AZ; www.cyma.com

Not-for-profit organizations need an accounting software package designed for the specific nature of the nonprofit industry. CYMAIV Not-for-Profit Edition is affordable nonprofit accounting software for value conscious NFP organizations.

**DAXKO**
2204 Lakeshore Drive, Suite 206, Birmingham, AL; **Contact:** April Benetollo; sales@daxko.com; www.daxko.com

All of DAXKO's solutions are Software-as-a-Service. DAXKO is 100% focused on the non-profit sector. All product and service decisions are grounded in the value we can provide our customers. Our software has a high degree of flexibility and custom configuration options. The implementation of our solutions is highly efficient. The ongoing service we provide is deeply steeped in industry knowledge and best practices.

**Donor Perfect Fundraising Software**
132 Welsh Rd, Suite 140, Horsham, PA; **Contact:** Ron Leatherman; info@donorperfect.com; www.donorperfect.com/npq

Thousands of nonprofits worldwide use DonorPerfect's all-in-one software solution to manage their fundraising activities and raise more money. Both our web-based and installed versions provide unlimited, detailed records for donors, prospects, volunteers, memberships, alumni and more. With one central database, everyone in your organization will be working with the same, up-to-date information.

**Donor Strategies, Inc.**
8807 Montgomery Ave., Chevy Chase, MD 20815-4705; **Contact:** Kathy Downey; info@donorstrategies.com; www.donorstrategies.com

**Donor Tools**
PO Box 7775 #35650, San Francisco , CA 94120-7775; **Contact:** Chris Dumas; support@donortools.com; www.donortools.com

Donor Tools is simple, powerful online fundraising and donor management software for nonprofits and churches.

**Donor2 Accounting**
555077 Center Dr., Ste 160, Charlotte, NC; **Contact:** Timothy S. Gilbert; support@donor2.com; www.donor2.com

Donor2 Accounting is a comprehensive suite of accounting tools designed specifically for the nonprofit accounting office. Featuring a direct link to Donor2 fundraising software, Donor 2 Accounting streamlines your gift entry and reporting process. Donor2 Accounting is a comprehensive solution that integrates directly with the Donor2 fundraising system.

**ebase**
38 S. Last Chance Gulch#2A, Helena, MT; **Contact:** Carl Paulsen; www.ebase.org

**Entango Corporation**
584 Castro St., Ste. 348, San Francisco, CA; **Contact:** Michael H. Savod; sales@entango.com; www.entango.com

Entango. Online Fundraising. Easy. Effective. Entango's online fundraising tools can help you build relationships, accept donations, sign-up & renew members, sell tickets and items faster, with less effort and worry. Entango's easy to use transaction and email management tools make it easier to build a unique and long-lasting relationship with your supporters, so you can Focus On Your Mission

**eTapestry**
6107 West Airport Blvd, Suite 120, Greenfield, IN; **Contact:** Steve Rusche; info@eTapestry.com; www.etapestry.com

eTapestry is the leading Web-based fundraising and donor management software with over 4,000 nonprofit customers worldwide. eTapestry can be accessed from any Internet connection and all updates, maintenance, and data backups are automatically provided. Additional products and services include advanced e-mail, online giving, WishList, and Web site development and hosting.

**Executive Data Systems, Inc.**
1640 Powers Ferry Rd., Bldg. 14 Suite 300, Marietta, GA; sales@execdata.com; http://execdata.com

More than 1250 CPA and accounting firms use our client write-up software, Ledger-Master.

**Fig Leaf Software**
1523 16th Street, NW Second Floor, Washington, DC; **Contact:** Bret Peters; info.dc@figleaf.com; www.figleaf.com

**Foothold Technology**
58 East 11th Street, 8th Floor, New York , NY; **Contact:** Nick Scharlatt; info@footholdtechnology.com; www.footholdtechnology.com

Foothold Technology provides human service agencies with case management and client tracking software that tracks both mission-critical and administrative data. Foothold uses the web-based ASP model which allows human service agencies to save money by outsourcing their technological hassles. Our promise is to drastically reduce the time required for administrative tasks by automating as much of the work as possible.

**Forum One Communications**
2200 Mount Vernon Avenue, Alexandria, VA; **Contact:** Andrew Cohen; info@forumone.com; www.forumone.com

Forum One Communications is a web strategy and development firm based in Alexandria, VA. Since 1996, Forum One has helped hundreds of organizations use internet technology to solve the world's most pressing problems. We build web sites using open source tools such as Drupal, assist organizations with online strategy and social media and help improve user experience

**Fund E-Z Development Corporation**
106 Corporate Park Drive, White Plains, NY; fundez@fundez.com; www.fundez.com

The company's mission is to create nonprofit accounting, fundraising, and billing software that is practical, affordable, and easy to use, enabling agencies to concentrate instead on the business at hand, helping others.

**FundRaiser Software**
PO Box 901, West Plains, MO; **Contact:** Autumn Shirley; sales@FundRaiserSoftware.com; www.fundraisersoftware.com

FundRaiser Software offers a unique donor management package that puts you in control with optional modules to enhance and increase its functionality. It has integrated online/offline donor management features, backed up by excellent support. FundRaiser Software has been serving the nonprofit community for the last quarter century, and is committed to the long term needs of nonprofits. In addition, the company is a noted as a leader in employee management practices, receiving the first Psychologically Healthy Workplace award for Missouri given by the Missouri Psychological Association.

**Fuse IQ**
3131 Western Avenue, Suite 321, Seattle, WA; **Contact:** Joel Meyers; info@fuseiq.com; www.fuseiq.com

Established in 2001, with offices in Seattle and Chicago, Fuse IQ brings the best of the web to nonprofits around the globe. We are passionate about creating positive social change through the use of modern technologies and ideas. Fuse IQ provides internet strategy, web design and development, and application development to organizations of all types.

**GiftWorks by Mission Research**
P.O. Box 8075, Lancaster , PA; **Contact:** Ellen C. Mowrer; sales@missionresearch.com; www.missionresearch.com/index.html

**GivAClick**

3333 Water Street, NW 4th Floor, Washington, DC; **Contact:** Katie Schuck; Partners@GivAClick.com; www.givaclick.com

Essentially what we do is we enable a technology on e-Commerce site that allows nonprofits to request donations.

**Grant Thorton LLP**

175 West Jackson Boulevard, 20th Floor, Chicago, IL; **Contact:** Frank Kurre; www.GrantThornton.com/nfp.

Grant Thornton LLP is the U.S. member firm of Grant Thornton International, one of the six global accounting, tax and business advisory organizations. Through member firms in 112 countries, including 50 offices in the United States, the partners and employees of Grant Thornton member firms provide personalized attention and the highest quality service to public and private clients around the globe. In addition, Grant Thornton is dedicated to serving a broad range of not-for-profit organizations, including colleges and universities, trade and professional associations, religious organizations, social and human service organizations, foundations and health care organizations.

**Higher Logic LLC**

1629 K Street, NW, Suite 300, Washington, DC; **Contact:** Suzanne Carawan; info@higherlogic.com; www.higherlogic.com

Sole focus on not-for-profits. Integrate with 15+ association management software systems. Value-add user group to provide thought leadership, strategy and education. Partner channel to provide additional software integrations and service offerings.

**HomeData Corporation**

960 South Broadway, Suite 126, Hicksville, NY; info@homedata.com; www.homedata.com

For 25 years, HomeData has been the premier compiler of weekly New Homeowner information. Currently, we cover over 1,300 counties and all major markets. All data is available on-line. HomeData also houses 60 million Historical Homeowner records, and 48-months on-line. To round out our suite of homeowner products, we provide Specialty Lists by religion, ethnicity, and political affiliation. In partnership, we also co-create both a weekly, telco, New Connect database and, most recently, the only multi-sourced weekly, New Mover database. At DMA06, we will introduce our new OnDemand Direct Mail Center, offering same week digital direct mail campaigns

**Imagistic**

4333 Park Terrace Drive, Suite 120, Westlake Village, CA; **Contact:** Michael Weiss; more-about@imagistic.com; www.imagistic.com

**Jacobson Consulting Applications (JCA)**

575 Eighth Ave., 21st Floor, New York, NY; **Contact:** Steven Birnbaum; steveb@jcainc.com; www.jcainc.com

JCA helps nonprofit organizations select and use the fundraising, membership, ticketing and web-based systems that best fit their needs. JCA is the first and largest full-service, independent consulting firm that provides technical assistance to non-profits. Since our inception, we have helped more than 500 nonprofit organizations in 42 states, Canada and the United Kingdom to make better use of their technology and streamline their operations. We are dedicated to finding the solutions that best suit the people and the systems within your organization.

**Kintera FundWare**

9605 Scranton Rd Ste 240, San Diego, CA 92121-1768; www.fundware.com

Kintera¨ FundWare unites accounting, budgeting and financial reporting tools with an impeccable audit trail, eliminating financial management pressures for nonprofit and governmental organizations. Modules include standard accounting modules such as General Ledger, Accounts Payable, Accounts Receivable, and Payroll, as well as specialized modules for the public sector, including Allocation Management, Project/Grant Tracking, Budget Preparation and Control. In addition to 60 built-in report templates, FundWare offers an Advanced Financial Reporting tool and an Excel-based report writer that dynamically links accounting data to the widely used spreadsheet software.

**Metafile Information Systems, Inc.**

2900 43td St. NW, Rochester, MN 55901-5895; **Contact:** Nick Sprau; info@metafile.com; www.ResultsplusSoftware.com

Metafile Information Systems, Inc. Type of Software: Fundraising, Contact Management, Membership, and Special Events Software. Resultsplus!ª fundraising and contact software is user friendly yet amazingly powerful. Our mail merge wizard works seamlessly with your word processor and email to efficiently create personalized merge documents. Resultsplus! supports online gifts, credit card donations, Moves Management¨, Donor Segmentation, and finely-tuned appeals.

**Mirasoft, Inc.**

4747 Mangels Blvd., Fairfield, CA; info@mirasoft-inc.com; www.mirasoft-inc.com

The ForFUND/NP Accounting product is a full suite of integrated software modules. ForFUND/NP Accounting includes: General Ledger, Budgeting, Grant/Project Management, Cash Receipts, Bank Reconciliation, Accounts Payable, Purchase Orders, Accounts Receivable, and Fixed Assets. The ForFUND/NP+ includes an integrated Payroll upgrade.

**Mysamaris, Inc.**

5024 N Carlin Springs Rd., Arlington , VA; **Contact:** Sara Sladecek; info@mysamaris.com; www.mysamaris.com

Mysamaris, Inc. takes a fresh approach to Internet Management for Nonprofits, providing integrated and affordable online solutions in the areas of fundraising strategy, design and technology.

**Needel, Welch & Stone, P. C.**

1001 Hingham St., Rockland, MA 02370; **Contact:** James G. Welch, CPA; info@nwscpas.com; www.nwscpas.com

Not-for-Profit organization boards and management want to be comfortable with their CPA firm and trust their advice. We listen carefully and ask questions to fully understand issues and objectives. We rely on sound principles when offering advice. Independence and objectivity are the foundation for our individually-tailored recommendations. Audits of financial statements and preparation of tax returns provide the foundation for other services including: software selection and implementation assistance, accounting for capital fundraising campaigns and evaluation of business processes and internal controls.

**Network for Good**

7920 Norfolk Avenue, Suite 520, Bethesda , MD; **Contact:** Rebecca Ruby Higman; fundraising123@networkforgood.org; www.networkforgood.org

Kinship. We understand our customers because we're a nonprofit too. Value. We handle the tough parts of fundraising for our customers, including like state registrations. ROI. Our customers raise $25 for every dollar they spend. Support. We provide lots of training and support via phone, email and chat.

**Nonprofits Books**

www.nonprofitbooks.com

Nonprofit Books Accounting is an easy to use way to turn QuickBooks into a nonprofit fund accounting and reporting solution.

**Npower**

3 Metrotech Center, Mezzanine, Brooklyn, NY; **Contact:** Mirna Hansen; mirna.hansen@npowerny.org; www.npower.org

We are a nonprofit serving other nonprofits. We are backed by the resources of Microsoft, Accenture and JP Morgan Chase. We have been serving nonprofits for 10 years.

**Orange Leap**

13800 Montfort Drive Suite 220, Dallas, TX; **Contact:** Matt McCabe; info@orangeleap.com; www.orangeleap.com

**Paper Thin, Inc.**

300 Congress Street, Suite 303, Quincy, MA 02169; **Contact:** Amy Eighmy; info@paperthin.com; www.paperthin.com

PaperThin is a Web content management solution provider that helps nonprofit organizations of all sizes to improve productivity and derive more value from their Web strategies. Our flagship solution, CommonSpot(tm) empowers business users to be self-sufficient and productive, while enabling IT and site administrators to easily adapt the system to meet their complex needs. That's why customers such as Urban Institute, Appalachian Mountain Club, and the United Way of America rely on CommonSpot to power their Web initiatives.

**Patron Technology**

850 Seventh Ave, Suite 1201, New York, NY; **Contact:** Eva Flaugh; info@patrontechnology.com; www.patrontechnology.com

Patron Technology, Inc., serves the arts and non-profit sector with cutting-edge technology. The company's main product, PatronMail, is a web based e-mail marketing system used by over 1,600 institutions. In 2010, PatronManager, a new web-based Customer Relationship Management (CRM) system designed specifically for arts and non-profit organizations will be launched.

**Payroll for Nonprofits**

724 Boston Post Rd, Suite 204, Madison , CT 06443; **Contact:** Ian Scotland; info@nppayroll.com; www.payrollfornonprofits.com

Payroll for Nonprofits meets the unique needs of nonprofit and government agencies through employee cost allocation, general ledger entry and file import, timekeeping and human resource management. Our easy web interface enables you to submit your payroll from anywhere. Look forward to clear detailed registers for each payroll and customized reports, if needed. Standard payroll and tax filing services included. Basic to very comprehensive payroll solutions offered. Payroll for Nonprofits = better reports + cost allocations + GL import files

**Plus Three**

P. O. Box 971, New York, NY 10274-0971; **Contact:** Alice Lincoln; jproano@plusthree.com; www.plusthree.com

Plus Three gives you everything you need to succeed online. We provide online strategy, design, and the best integrated online marketing technology in the industry for nonprofits and political organizations. Since 2001, we have helped our clients raise over $250 million, engage 12 million people online, send more than 2 billion emails, serve their members, advocate for legislation, and win elections.

**QuickBooks Pro and QuickBooks**

2632 Marine Way, Mountain View, CA; www.intuit.com

Designed specifically for nonprofits, QuickBooks Premier Nonprofit Edition 2005 offers the customized tools you need to manage your organization's finances more effectively, efficiently, and easily.

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# Government and Nonprofits: Turning Points, Challenges, and Opportunities

by Steven Rathgeb Smith

Barack Obama's election as president and his subsequent initiatives regarding the nonprofit sector have called attention to the relationship between government and the nonprofit sector.[1] Perhaps most notable, the Edward M. Kennedy Serve America Act of 2009 could fund up to 250,000 new AmeriCorps and VISTA volunteers, enabling thousands of nonprofit organizations across the country to employ stipended volunteers supported by the federal government. President Obama has also created a new Office of Social Innovation and Civic Participation to assist nonprofit capacity building and to support nonprofits with proven results. If enacted, health-care reform will affect countless large and small nonprofit health and social-welfare organizations. And the $750 billion in stimulus money made available through the American Recovery and Reinvestment Act of 2009 is being distributed to nonprofits throughout the country, including many organizations that have suffered severe cutbacks in government funding as a result of the intensifying fiscal crisis in state and local government. Congress also continues to debate new regulations pertaining to nonprofit organizations, such as new legislation tying the tax exemption of nonprofit hospitals to specific levels of care for the poor.

In short, the sheer scale of the diverse policy initiatives under way has the potential to profoundly reshape nonprofit organizations. Yet previous administrations have also begun with a flurry of activity involving nonprofit organizations, only to have little long-term impact. Consequently it is useful to revisit history for insight on the potential impact of the Obama administration on nonprofit organizations and philanthropy.

This article offers a historical analysis of key periods in the relationship between government and nonprofit organizations, with particular attention to the lessons these periods offer to contemporary policy makers and nonprofits. The central argument is that the evolution of nonprofits' role in American society has reflected the shifting structure of the American state, which in turn has affected the advocacy and service-delivery roles of nonprofit organizations.

## Change and Continuity in the Historical Development of Nonprofit Organizations

During colonial times, churches and early nonprofit organizations, including universities and hospitals, were critical components of the social structure. But with its decentralization, limited resource base, and minimal role for the federal government in domestic policy, the initial structure of the American state created powerful incentives for a distinctly local nonprofit sector with relatively little ongoing funding support from government. During this period, many nonprofits were associations and clubs rather than organizations providing services to the public.[2] Those nonprofits that did provide social and health services depended on a mix of private donations, fees, and modest public subsidies.

The late-nineteenth and early-twentieth century witnessed a steady expansion in nonprofit organizations engaged in providing services to the citizenry. Many of the more prominent and notable of these organizations remain with us today: Catholic Charities, the YMCA, Lutheran Social Services, the Salvation Army, Goodwill Industries International, and the Boys and Girls Clubs of America. These service agencies were established in a wave of new nationally federated organizations with chapters in local communities throughout the country.[3] Most local nonprofits were churches, social clubs, and associations such as the Masons, the Elks, and the Grange. Local charities that offered social, educational, and health services to the public comprised a relatively small part of the nonprofit sector and continued to rely primarily on private donations, fees, and modest public subsidies. Indeed, many nonprofit agencies such as settlement houses and emergency assistance programs depended entirely on private charitable donations.

In terms of funding of nonprofit service agencies, the creation of the Community Chest—the forerunner of the United Way—was a watershed event in the early twentieth century. Started in Cleveland, the Community Chest quickly spread throughout the country. By the end of the 1920s, most communities of significant size had a Community Chest chapter. The Community Chest was essentially a membership organization of leading nonprofit service agencies in local communities; these agencies pooled their resources and solicited donations via payroll deduction through a combined campaign. For many agencies such as the YMCA and the American Red Cross, the Community Chest quickly became a major source of revenue.

During the Great Depression, these agencies were overwhelmed by demand, and some needed emergency relief funds. Many local nonprofits failed entirely or merged with other organizations. Of course the Depression dramatically altered the role of the federal government in many areas of American life, including income-maintenance programs such as pensions and welfare, as well as regulation. Surprisingly the involvement of government—particularly the federal government—in the regulation and funding of nonprofit service agencies remained limited or ephemeral for two reasons. First, many of the Depression-era programs that channeled funds through nonprofits were temporary and ended soon after the start of World War II. Second, the federal government assumed at least part of the responsibility for poor relief, freeing some agencies from cash and in-kind support for poor people.[4] Consequently, during the late 1940s and 1950s, nonprofit agencies remained largely dependent on private donations (especially Community Chest funds) and fees. Some agencies, such as foster-care agencies, also received public subsidies for specific clients and services. The restricted character of nonprofit revenue sources meant that most agencies were relatively small and lacked extensive professionalization and infrastructure.[5]

In essence the many major New Deal initiatives of the 1930s failed to fundamentally alter intergovernmental relations regarding nonprofit service agencies. Consistent with the nineteenth-century period, public policy for social and health services was largely a matter for state and local government. To be sure, during the 1950s the federal government provided grant-in-aid support in policy areas such as child welfare and hospitals through the Hill-Burton Act of 1946, which authorized construction grants and loans. But these federal programs were quite targeted or limited, so most nonprofit service agencies such as the YMCA or local family service agencies were largely unaffected.

## Government and the Nonprofit Sector: A New Relationship

Many scholars, policy makers, and practitioners have noted the dramatic shift in the relationship between government and the nonprofit sector during the 1960s with the War on Poverty and the new federal role in social policy. Three key developments stand out as major breaks with previous policy: First, the federal government provided ongoing funding support for local nonprofit service agencies through grants to state and local governments that then contracted with nonprofit organizations or through new direct federal grants to local nonprofit agencies. Second, this new funding allowed and encouraged the creation of thousands of new nonprofit agencies outside the existing networks of established Community Chest agencies. Third, funding programs were accompanied by a new regulatory authority that provided the basis for a more assertive evaluation role for government vis-à-vis the nonprofit sector.

The influx of federal funding rapidly changed the government-nonprofit relationship. Many long-standing agencies that had previously depended on Community Chest funds became substantially dependent on government funds. Entirely new nonprofits such as Community Action agencies and community mental-health centers were created. And state and local governments invested in new capacity to manage the expansion of contracts to nonprofits.

This restructured government-nonprofit relationship was controversial. Many scholars and nonprofit executives feared that government funding would undermine the distinctive character and autonomy of nonprofit agencies. Many policy makers worried about the potential loss of accountability for public funds as an increasing number of services were contracted out to private, largely nonprofit agencies. Many political conservatives were concerned that the reach of the federal government had become too extensive. This concern was an important factor in the election of President Ronald Reagan, whose platform promised a smaller federal government. Early in his administration, Reagan won passage of new legislation that devolved responsibility for many federal social programs to the states and substantially cut federal funding.

During the early 1980s, these reductions in federal funding led many nonprofits to cut their programs, sometimes quite severely. Over time, though, many nonprofits compensated for lost funding by tapping new federal government programs, refinancing their programs by taking advantage of growing federal programs such as Medicaid, or increasing their private donations and earned income. The expanded use of vouchers, tax credits, and bond issues to fuel the overall growth of nonprofit social and health agencies also reflected the growing diversity of government funding sources. Created by legislation in 1986, the Low Income Housing Tax Credit, for example, has been a major factor in the growth of nonprofit low-income housing organizations throughout the country. So too the enactment of welfare reform in 1996 led to greater demand for nonprofit services, as cash assistance to the poor—now called Temporary Assistance for Needy Families—became more conditional and difficult to obtain. Additional services were also required to assist individuals still receiving cash assistance to find employment.

The financial crisis has presented difficult financial challenges for many nonprofit agencies. But many of the policy and management issues facing nonprofit organizations that provide public services reflect the evolution of the government-nonprofit relationship over the past 40 years. The dramatic growth in government contracts with nonprofits has vastly increased the number of agencies, with many new specialized agencies producing greater fragmentation in services and daunting new challenges in terms of governmental management of an increasingly complicated service system.

As a result, government managers have more incentive than ever to expect higher levels of accountability from nonprofits, especially from agencies providing services with public funds. Moreover, many newer nonprofit agencies are modest in size and face serious constraints in their capacity to respond to increased performance expectations while undertaking advocacy and public education on behalf of their agencies. For these reasons, many newer—and older—agencies have sought to participate in the policy process through coalitions and other intermediary associations in support of agency goals, especially given the recurrent budget crises in state and local government and the difficulty of raising private donations.

## AmeriCorps, Community Service, and Public Policy

While the growth of government contracting that began in the 1960s continues to affect the nonprofit sector, another important development was Congress's creation in 1993 of AmeriCorps and the Corporation for National and Community Service. The precedents for AmeriCorps date to the 1960s, with the establishment of the Peace Corps and VISTA, and then, in the 1970s, with the creation of ACTION. But these programs were relatively modest in scope. President George H. W. Bush inaugurated his now well-known Points of Light campaign to champion volunteer and community initiatives around the country, though direct federal support for this effort was small.

But in 1993, the launching of AmeriCorps and the Corporation for National and Community Service placed the federal government squarely in support of community service, service learning, and a more extensive role for nonprofits in helping their communities. The establishment of the Corporation partly freed voluntarism and community service from its dependence on private funding and smaller-scale state and local efforts, as was the case with new federal grants and contracts with nonprofit agencies for social and health services.

Throughout the Clinton presidency, the Corporation was politically embattled and in danger of elimination. Nonetheless, the Corporation survived and has undertaken an assertive role in the government-nonprofit relationship that differs substantially from its contracting and regulatory functions. The Corporation and AmeriCorps have funded thousands of AmeriCorps volunteers who have in turn worked in various community organizations, providing staff support to local agencies in an extensive range of service fields, from social welfare to the environment to early-childhood education. In the process, AmeriCorps volunteers have generated support for local organizations that has proved useful in fundraising and in generating broader-based community support.

Another long-term effect of the Corporation and AmeriCorps is their direct and indirect support of new nonprofit organizations based on a social-entrepreneurship and community-service model, such as City Year, Teach for America, Citizen Schools, the Harlem Children's Zone, and YouthBuild. Many of these organizations have partnerships with public agencies, foundations, and corporations and actively seek growth and deeper program impact, aided in part by foundation grants and AmeriCorps funding for volunteers. These organizations are also major backers of the Edward M. Kennedy Serve America Act of 2009.

In general the newer nonprofit organizations that have close working relationships with AmeriCorps and the Corporation differ significantly from nonprofits that contract for public services. Over the past 25 years—and until the financial crisis—the big growth areas in contracting were in services such as home health care, foster care, community care for the developmentally disabled and the mentally ill, low-income housing, community development, and child care. The agencies providing these services are primarily professional, staff-driven organizations with relatively few volunteers. Some of these services are highly complex, involving many types of professionals and the legal system. Consequently it is much more difficult to engage these organizations in community-service activities. The newer community-service agencies also tend to be staff-driven organizations but rely heavily on volunteers for their direct-service activities.

## Nonprofit and Public Policy: The Challenge Going Forward

The growth of government contracting, social entrepreneurship, and community service, combined with the financial crisis and a new presidential administration that supports local community organizations, puts nonprofits and government at an important historical moment. Government support for community service and volunteering is at an all-time high. Interest among young people in AmeriCorps, the Peace Corps, and service-oriented nonprofits such as Teach for America is growing. The billions of dollars in stimulus funds may help nonprofits at the local level launch new initiatives or continue existing programs. Nonetheless nonprofit service agencies face management and political challenges as they cope with an increasingly turbulent and competitive environment.

Consequently government and the nonprofit sector must assertively respond to this environment by rethinking existing policies. The Obama administration and state and local governments should take advantage of this broad popular support for voluntarism and recognize that the nonprofit infrastructure requires an ongoing investment and commitment from government and private funders. The Corporation in particular has provided direct support for thousands of volunteers but generally does not support the infrastructure and capacity of nonprofit organizations themselves. The risk is that without a vibrant nonprofit infrastructure, AmeriCorps volunteers might fail to maximize their value to their communities. This infrastructure support also requires nonprofits to structure their governance to promote outreach and broad-based community and political support.

Moreover, there are tens of thousands of community-based nonprofits providing important services that are not likely candidates for extensive funding through the Corporation for National and Community Service programs. These agencies provide an array of services—from home care to welfare-to-work—and need sustained public and private support, even if their services are specialized and local. For their part, these agencies must invest in good governance, transparency, accountability, and engagement with the policy process on behalf of their agencies and their clients. Foundations and private donors can aid this effort by supporting coalitions and associations of nonprofits, along with local nonprofit organizations whose primary missions are advocacy, public education, and citizen engagement.

Policy makers should also work to establish structured, ongoing forums for the resolution of issues of mutual concern between government and the nonprofit sector, such as funding levels, rates, regulations, and new program initiatives. This effort could include a federal office or commission on nonprofit organizations as well as less formal settings to discuss important policy and governance issues.

Significantly, the combined effects of extensive contracting and widespread interest and participation in community service means that now more than ever, citizens—either as service recipients or deliverers—will engage with a nonprofit organization supported by government rather than with government itself. Consequently, government has an obligation to ensure that nonprofit services are provided equitably and adequately so that citizens can achieve full social and political citizenship. This effort requires an engagement of nonprofit representatives in the policy process at all levels of government and an "investment" approach by government and nonprofit organizations that emphasizes accountability and results as well as sound governance and community engagement.

### Endnotes

1. The author would like to thank Putnam Barber, Rick Cohen, Julita Eleveld, Kathy Kretman, Michael Lipsky, Ruth McCambridge, and Cory Sbarbaro for feedback on earlier versions of this paper.


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# Nonprofits and Journalism

## An Interview with Mark Jurkowitz

***Editors' note:*** *In the United States, there is a long-standing conceptual and practical interconnection between the news media and nonprofits. Both are creatures of the First Amendment, which accords citizens rights to a "free press" and to "free and active association." Both of these rights are considered essential to a healthy democracy and an informed citizenry.*

*But journalism as we have known it is now widely considered at risk because the business that has supported much of it—that is, newspapers—has failed. As a result, many proposals have been floated to protect the integrity of journalism, and much experimentation is occurring. Some would like to see journalism be more fully "owned" by the nonprofit sector, for instance. Mark Jurkowitz talks with the* Nonprofit Quarterly *about where the media industry stands and where it is likely to go.*

***Nonprofit Quarterly:*** *You have been involved in media analysis for a few decades. How have you seen journalism change over that period?*

**Mark Jurkowitz:** Obviously, we have a dramatically fragmented news environment. The news cycle has sped up from a once-every-24-hours schedule where a gatekeeper was controlling the flow—you would pick up your daily paper or turn on Tom Brokaw once a day—to news that is available on a variety of platforms that is delivered in microseconds. People can get information on demand even when they are walking down the street.

There are myriad news organizations now functioning with very different standards and principles that make information available to people. A lot of it is much more ideological than it used to be. What used to differentiate U.S. media from a lot of overseas media was the implied guarantee that when we covered the news, we would do so objectively. There wasn't ideological media and news gathering. That's changed. People now can pick and choose information—information that in some ways validates their own viewpoint. People now have the option to practice cafeteria-style news gathering, which is good in some ways and bad in others.

A lot of the paternalism is gone. It's no longer the province of major newspaper editors to determine what the American public gets to find out about. It's a transformation from "gatekeeper journalism" to "geyser journalism." By that I mean no longer is information sifted from the top down, but in many respects it explodes from the bottom up. All you need to have is one news purveyor deciding to make a story public, and it quickly will work its way through the entire food chain. All of this is made possible by the Web.

***NPQ:*** *So how does this affect the economics of journalism?*

**MJ:** The real crisis we see now in the newspaper industry has been caused by the failure to effectively monetize online journalism. The idea that somehow the content providers would be able to ring money and payments out of the Googles of the world—which have gotten rich slicing and dicing their content—is pretty much an argument that's still raging. But it looks to me like the barn door is open and the horse is well down into the field. There's still an argument over micropayments and paywalls and getting news consumers to pay for information online, but the overarching dynamic so far has been that people really aren't willing to pay for information online when it's so plentiful elsewhere.

The thought was—if you think of it in terms of a relay race—that there was going to be this baton handoff. Old-media forms suffering from declining readership, declining circulation, and declining advertising problems brought on by the loss of classifieds would hand the revenue baton off to the online world. I think people have been taken aback by the inability of journalism to create

## **Nonprofits Models for Newspapers,** by Rick Cohen

Experimentation on forms, purviews, and financing models for nonprofit journalism efforts runs the gamut, some of which we will review here. As the experts debate the pros and cons, there are increasing examples of nonprofit-run and –financed news outlets filling in some of the gaps of declining coverage by mainstream newspapers.

**Nonprofit journalism: Launched with largesse.** MinnPost.com is a nonprofit online journal run by Joel Kramer, the former editor and publisher of the *Star Tribune* in the Twin Cities. Launched in 2007 by four families, MinnPost.com was started with $850,000 and subsequent support from several foundations, including the John S. and James L. Knight Foundation and the McKnight Foundation. The business model relies on corporate and foundation sponsors, advertising, and annual contributions.

Voiceofsandiego.org got its initial funding from Buzz Woolley, a retired venture capitalist, who cofounded the online venture with former *San Diego Times-Union* columnist Neil Morgan. Like MinnPost.com, voiceofsandiego.org turns to member-donors and foundations for its $1 million operating budget to support a staff of 12.

Several *St. Louis Post-Dispatch* editors joined together to found the Platform, which became the *St. Louis Beacon*. The online *Beacon* raised $1 million to get going and got a pledge of another half-million if the venture can raise another $1.5 million.

The *Chi-Town Daily* began as an online nonprofit three years ago, with member, corporate, and foundation support. An intriguing part of the model was the combination of "seasoned beat reporters" with a network of 70 trained volunteer reporters. In September, *Chi-Town* editors announced their intention to convert to a for-profit model. *Chi-Town* suggested that it needed $1 million to $2 million a year, but last year raised only $300,000 from charitable and philanthropic contributions.

In California the Voice of OC in Orange Country began with a $140,000 grant from the Orange County Employees Association. The intent is to provide an alternative, liberal voice to the conservative political news that dominates the historically Republican Orange County.

Financier Warren Hellman announced his plans to invest $5 million in an unnamed nonprofit news venture to generate Bay Area stories for media partners. Hellman says that his new nonprofit outlet will rely on paid reporters and editors as well as contributions from 120 students at the University of California-Berkeley Graduate School of Journalism.

**For-profits that look like nonprofits.** Like the San Diego News Network and the *Chi-Town Daily*, several small online outlets look like nonprofits but may not be. This past July, the *Rocky Mountain Independent* (*RMI*) emerged and sought subscribers to pay $4 a month for access to subscriber-only content and chats with the publication's journalists. According to *RMI* staff, the business model is more like ESPN.com than MinnPost, though *RMI* editors have said that they are seeking subsidy.

Several nonprofit news sites are dedicated not to local journalism but to investigative journalism more broadly. Established in 2007, ProPublica investigates misdeeds in government and business, according to the *New York Times*. The capital for the organization comes from a $10-million-a-year grant pledged by Marion Sandler. The editor-in-chief is Paul Steigler, a, former *Wall Street Journal* managing editor. On the board of ProPublica

a workable business model for the new-media model. For all who thought, "We'll make this money on the Internet," it's just not happening.

***NPQ:*** *What is all of this doing to the quality of investigative journalism?*

**MJ:** Information is always going to be plentiful. The question is, "What's the quality of the information?" Good journalism, in-depth journalism, sophisticated journalism is expensive. Investigative units cost money. Foreign bureaus cost money. Washington bureaus cost money. Allowing beat reporters and science and health reporters to work and spend time understanding complex issues costs a lot of money. That kind of journalism was traditionally subsidized by the legacy media that's under such duress now. It's not clear—while nobody thinks there is going to be some kind of information blackout—who's going to pay for the kind of quality journalism that a civil society needs to keep informed.

There are some people—many of them working in the industry—who say, "We have to come up with something to save journalism as we know it." There are others, and they tend to be sort of more new-media advocates, who say, "This is an understandable and important and even necessary economic revolution that essentially has to happen. Every once in a while, industries—through forces of change—are dramatically reassembled and reorganized. That involves a lot of temporary chaos."

***NPQ:*** *Experimentation that crosses all sectors seems to be going on. Can you briefly characterize where all of that is?*

**MJ:** We still have a basic market strategy that assumes that the real problem here is simply we've got to be smarter about making people pay for information. There is a sense that some of the advertising chaos that's happened will straighten out too once the economy are Rebecca Rimel of the Pew Charitable Trusts and Alberto Ibargüen of the Knight Foundation.

Not everyone can land the largesse of the Sandlers, however. Investigative West focuses its investigative journalism on the Pacific Northwest and the West (www.invw.org). As with other nonprofit outlets, Investigative West has made an effort to access money through memberships, including its $30 student memberships and regular memberships at $60 and its "watchdog club" and "muckraker club" memberships for $1,000 and $5,000, respectively.

**For-profit and longstanding nonprofit models.** No one should mistake nonprofit ownership of news outlets as new, though it is obviously rare in the high-powered world of U.S. mass media. For years, *the St. Petersburg Times* was affiliated with the Poynter Institute, a nonprofit journalism school. The *Times* was owned by a for-profit publishing company, but all the after-tax company earnings support the nonprofit Poynter Institute. In July the for-profit owner—the Times Publishing Company—sold another holding, the *Congressional Quarterly*, to the for-profit *Roll Call*. Along with *Florida Trend* and several community weeklies, the *Times* remains under the control of the Poynter Institute, though the press refers to it as "troubled."

Similarly, the *Christian Science Monitor* is owned and published by the Christian Science church. Despite 100 years of support, the *Monitor* has had difficulties and dropped its daily print edition in favor of a weekend-only print edition, plus a daily online paper. Similarly, the *Capitol Times* in Madison, Wisconsin, and the *Kentucky Post* serving the Kentucky part of suburban Cincinnati have shifted online as well. Though for-profit, they share the *Monitor's* challenge of surviving a difficult publishing environment with plummeting subscription and advertising revenues.

Lots of for-profit newspapers have tanked this past year, notably the *Seattle Post-Intelligencer*, the *Rocky Mountain News*, and the *San Francisco Chronicle*. Others such as the Tribune Company (owner of the *Baltimore Sun*, the Chicago *Tribune*, and *the Los Angeles Times*, for example) have filed for bankruptcy.

**The future of journalism.** Watching his largest city's newspapers sink, Maryland Senator Ben Cardin introduced the Newspaper Revitalization Act, which would allow newspapers under some circumstances to operate as educational nonprofits: advertising and subscription revenue would be tax-exempt and these nonprofit-like newspapers could receive tax-deductible charitable and philanthropic contributions. To qualify, newspapers' "preparation of the material contained in such newspaper follows a methodology generally accepted as educational" and would not be allowed to make political endorsements. Cardin's Senate bill and a companion House version introduced by New York's Carolyn Maloney have each garnered only one cosponsor, which may indicate a lack of congressional and perhaps newspaper industry enthusiasm for the proposal.

Clearly, as things progress, we will see which of these ownership and financing models has legs not just for the sprint but for the longer-distance, difficult-terrain race that U.S. journalism faces.

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starts to right itself. Others think there is still an untapped reservoir of revenue in the consumer. They say, "There's got to be a way to make the news consumer pay in a way that's going to sustain journalism."

Then there are those who advocate for a greater government and policy role in saving the news industry. When you're talking about the public sector, there may not be one concerted effort. There are a lot of thoughts and ideas floating along out there: everything from turning newspapers into public media in the same way that NPR is or that PBS is. There is a lot of talk about changing tax law or even changing bankruptcy law.

You may start to see a series of patchwork, situational government interventions, perhaps based on local pressures, that's going to occur around the country. Or it may be in a completely disconnected way in which a local newspaper goes under and the politician or local officials feel compelled to do something. In Boston, that actually happened recently when the *Bay State Banner*, the city's African-American paper with a long and proud legacy, was about to go under, and it received, I believe, a subsidy from city hall. So, literally, the mayor went in and decided he was going to bail out the newspaper.

***NPQ:*** *What about the idea of more fully housing the function of journalism within nonprofits?*

**MJ:** The newspaper as nonprofit entity would allow the news organization to take donations and contributions and would change their tax mandates. We are seeing the rise of some nonprofit operations, the most notable probably being ProPublica, which is essentially an investigative news organization. It's now got, I believe, about 30 editorial staffers. It's run by Paul Steiger, who is the former managing editor of the *Wall Street Journal*. It was founded and funded with the concept that it's really expensive for media to

## Walter V. Robinson and Nonprofit News

by Aaron Lester

The news business is in crisis. Newspapers across the country are in peril. These facts are news to no one.

The *Boston Globe*, for one, has reduced its newsroom staff to 340 from a high of 552 in 2000. The newspaper has also closed all its foreign bureaus and reduced staff coverage of national affairs and other news categories.

As the *Globe* and dozens of newspapers across the country scramble to find a business model that works, the nonprofit solution has gained traction.

Over the past two years, nonprofit news organizations dedicated primarily to investigative journalism have sprouted up in New York, Washington, D.C., San Diego, Minneapolis, and St. Louis. They've also cropped up in states from Iowa and Michigan to Colorado and New Mexico.

Jack Shafer, the media critic for Slate.com, recently wrote that the idea is "spreading like a midsummer algae bloom."

"The nonprofit model, for the time being, is the most viable and attractive option for sustaining watchdog, investigative journalism," says Walter V. Robinson, a Distinguished Professor of Journalism at Northeastern University in Boston and 2003 Pulitzer Prize winner.

Traditionally newspapers and civic-minded nonprofits have worked in concert to create a well-informed, engaged citizenry. In Boston, as in other cities, the kind of watchdog or investigative journalism that keeps the public informed and fosters civic engagement has been hit the hardest.

"The way we've chosen to set up our democracy, requires the public to be engaged in the business of how their lives are managed by government," Robinson says. "Investigative journalism or watchdog reporting by journalists is the best and, very often, the only way people can find out what is going on in their communities."

Most newspapers the size of the *Globe* have cut completely or significantly reduced resources dedicated to investigative reporting. Though the *Globe's* Spotlight Team has remained fully staffed, Robinson says it is the short-term investigative pieces that have suffered recently. "When you lose 200 people, many of them savvy reporters and editors, you lose your ability to be as thorough, as detailed, and as in-depth in your coverage of issues that matter to the community."

do investigative journalism. When ProPublica began, many major papers no longer had their investigative units. So they decided they wanted to establish themselves as an investigative clearinghouse for the media, and they would create this news organization devoted entirely to investigative journalism.

You used to have the basic advertiser-driven model of journalism: advertisers paid for journalism. Yes, sure: subscribers bought newspapers, but as everybody knows, that was always a small portion of the revenue. Most newspapers lived and died with ads. It is a situation that certainly could create some conflicts of interest. Obviously, the idea that powerful businesspeople in your community or elsewhere were essentially helping fund your newspaper is not ideal. It could and did create conflicts at times—probably more in omission than commission. It wasn't an ideal situation, and everybody in the business probably has horror stories, or at least conspiracy theories, about how that played itself out. But over time, it became accepted wisdom that this was a pretty good way to go.

There are similar concerns with the nonprofit model. Who is funding you, and who is giving you money? In the advertiser-driven model, the idea that you were collecting a pot of money from advertisers and businesspeople with all sorts of varied interests seemed more benign, perhaps, than collecting money from institutions, donors, charitable institutions that may be doing other work that clearly has a point of view.

In any given situation, you can establish procedures and standards for minimizing the risk of conflict. Newspapers have always set up firewalls separating the editorial product from the publisher. But it's a perception issue. According to survey data, we know people see the mainstream media as biased. There's a lot of public skepticism about the news media, even under the advertising model. You can only imagine the potential problems you would have with a news organization funded by somebody that clearly had a well-known political point of view. It gives critics an additional way to make a public argument against hard-hitting journalism.

One of the other fears is of a news organization that receives charitable giving. An institution that's highly dependent on giving and that doesn't insulate itself from broader economic problems is highly vulnerable from a business point of view. The fortunes of charitable institutions wane and flow with the broader economy, so there can be tough times even under the best of circumstances.

**NPQ:** *Do you have predictions about the new home for journalism in this country?*

**MJ:** The only honest answer is, I don't know. It's been fascinating to watch the evolution of this, and I'd say if you asked the question five years ago, people would have said, "OK, we know there is a transition going on to online digital media; that's going to happen. We're getting comfortable with it. We think in 10 years the *New*

*York Times* might not print or it might be a once-a-week supplement for an elderly elite population, and we're all comfortable with that." In other words, the idea is, well, there will be some natural order of things, and basically journalism as we know it will largely be an online phenomenon and it will happen in 10 years. Then the recession hit. We calculated in our annual report last year that the impact of the recession has doubled the problems that the media industry has had.

Within the past year, that calculus is all gone, and we just don't know what's going to happen. I mean, the frantic pace of ideas and debates and arguments about what is happening and what's going to happen has picked up so dramatically that it's a clear reflection of an industry that just doesn't know what's going to happen next.

Certainly there is going to be a whole series of things tried that will probably work for some and not for others. We've already seen a tremendous paring down of costs. There will be unprecedented partnerships. There will be some nonprofit options. There may be more direct government intervention, and there will be experimentation on the market side. We are going to lose news organizations. We are going to see some well-known news organizations change and evolve so dramatically as to be unrecognizable. There will probably be a major American city without a newspaper in the not-too-distant future. And as a whole, the print product is going to be greatly diminished when we get to the other side of this.

Now, one of the great contradictions is, online journalism is going to work. The cost of production is so much smaller. There's no gas-guzzling truck that has to carry something to your house. There's no big, multimillion-dollar press manned by union workers that's got to crank this stuff out day in and day out. The barriers to publication are so reduced. It's going to be so much cheaper to provide this kind of information material online. All this is true. But the fact right now is that about 90 percent of all the revenue of news organizations that have both online and print products is coming from the print product, so you can't afford to shut down the *Boston Globe* newspaper and make Boston.com even better, because you'd lose the overwhelming majority of your revenue.

So you can see, many of the preconceptions about how this was going to work have all gone by the boards right now, and it's kind of a "man the lifeboats" kind of situation.

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# Shotgun Mergers amid Financial Crisis

by the editors

In the wake of the nation's worst economic downturn since the Great Depression, it's not difficult to find plenty of press on the subject, including tactics for survival. In turn, many philanthropists now extol the virtues of nonprofit mergers—particularly among their grantees.

"When we first started talking about this in advance of the economic crisis, I think there was a big pushback," notes the Boston Foundation's CEO. "There was a lot of unhappiness that we were even raising this issue. I think that's really changed."[1]

The chairman of the Stoddard Charitable Trust commended a merger involving a nonprofit he had funded. "From a foundation's perspective and as a taxpayer, especially in these times, I applaud a collaboration merger where it makes sense," he says. "In the for-profit world, businesses learn very quickly they have to make the bottom line balance out, or they disappear. Sometimes, in the nonprofit world, businesses can be a little slower to deal with that reality," the chairman opined.[2]

Commissioned by Mayor Gavin Newsom, a San Francisco Foundation paper boldly recommends merging or closing city-funded nonprofits to reduce San Francisco's $483 million annual outlay to nonprofits.[3] What's more, the foundation put its money where its mouth is by placing $250,000 into its Nonprofit Transition Fund to give nonprofits professional help and guide them toward mergers or shutdowns.[4]

Similarly, in economically plunging Detroit, a group of five foundations—the Skillman Foundation, the Kresge Foundation, the W.K. Kellogg, Foundation, the John S. and James L. Knight Foundation, and the Community Foundation for Southeast Michigan—has made a commitment to help the city in the epicenter of the manufacturing and subprime mortgage crises. The group has actively promoted the notion that neighborhood-based charities consolidate and reform as regional organizations.[5]

These foundation interests are hardly new. But the economy may have given the philanthropic sector's interest in mergers and collaborations new impulse. Underlying this view is an accepted economic determinism that suggests that it is high time to consolidate, lest grantees devolve into financial insolvency.

The jury is still out on whether the merger-and-acquisition juggernaut will result in many more mergers now than in better economic times and, more important, whether mergers will benefit the groups involved. But we know something about the challenges that the nonprofits trying to blend their operations and the funders trying to induce these interorganizational marriages will face.

## Merger Limitations

According to most data from the for-profit sector, the failure rates for mergers are high. KPMG data indicates that half of mergers destroy shareholder value, and another third have no positive or negative effect.[6] Another source suggests 40 percent to 80 percent of mergers fail;[7] and others typically place the failure rate at two-thirds or more. According to one skeptic of the practice, the challenge of merging two previously independent organizations is a "Herculean" task of merging—or "smooshing"—not just the two organizations but also multiple departments.[8]

And then there is the well-known but generally unstated truth that "most mergers are really acquisitions," where a merger is simply a nicer name for an unpleasant process.[9] Just consider the recent mergers among banks or between commercial banks and brokerages, and spot the balance between merger and acquisition. It is no different in the nonprofit sector: "Most mergers in the nonprofit sector are really acquisitions," Jay Vogt writes. "Pragmatic partners quickly determine whether they are 'top dog'—or not—and act accordingly. The organization being acquired has to define its absolute minimum requirements. The organization doing the acquiring has to define what it is willing to give. Doing this calculus helps make the deal happen."[10] Even studies touting the potential benefits and alleged frequency of mergers sometimes reveal that they are talking about mergers and acquisitions, not simply mergers.[11]

## Are Nonprofits Interested?

A year ago, we would have said that nonprofits generally smiled, nodded, and largely ignored funder remonstrations about the advisability of mergers. And we still believe that funder prescriptions have little effect (other than to annoy nonprofits). But we now hear more anecdotal reports from nonprofits that are considering mergers. Many nonprofits now seem to be approaching a recession-related financial cliff that may last through 2010.

As a result, will we see a spate of merger-related activity? And if we do, how much will be successful? Mergers take time, and more stable entities may find their boards to be less than enthusiastic about acquiring or merging with an organization that is destitute. Still, many anchor service agencies depend on a network of smaller agencies around them to create an entire service system (see "Advocacy in the Age of Obama" on page 26). Losing these partners' services may prove more of a problem than taking some of those organizations in as programs.

## Thinking about Collaborations

Despite the financial incentives and funder inducements, nonprofits generally haven't considered mergers. This is demonstrated by nearly 1,000 nonprofits' minimal progress on mergers in a recent survey conducted by the Nonprofit Finance Fund. If you ask nonprofits, they say their emphasis is more on collaborations and networks, the ability of organizations with compatible interests and objectives to come together, sometimes formally through structured relationships, sometimes more informally or ad hoc, to achieve mutually desired goals while retaining their original missions and stakeholders.

## A Moveable Feast amid Crisis

In these pages, we have noted that organizations are more inclined to come together in episodic, opportunistic ways while still investing significantly in each collective effort. A good example is in housing development, where one community development corporation (CDC) group in Memphis recruited other CDCs to collaborate on a combined application to the state for Neighborhood Stabilization Program funding to help nonprofits and public agencies acquire and redevelop foreclosed properties. After some resistance, 10 groups agreed to join together to request $12.5 million. The group internally negotiated target areas, funding levels, and a target number of housing units.

"We advised the state of our approach," says Tim Bolding of United Housing, the initiating group, "and got a 'We'll believe it when we see it' response. In fact, one person at the state told me, 'It would take a miracle for the folks in Memphis to cooperate on an application.'"

The result was that the 10 groups got the $12.5 million. This is the largest funding ever received by the CDC—and probably more than these organizations had received from the city's HOME program in the past 10 years combined.

The group is now cooperating on implementation and related policy issues. "We may have started the process reluctantly," Bolding reflects. "But I think we have found we have much more clout and control as a group than as 10 individual CDCs.

## Merger Coercion Is Misplaced Energy

Most of the time, trying to force strategic alliances is a losing strategy. It produces a lot of misfires. In terms of collaboratives, our communities have long been chock-full of on-paper collaboratives that last only as long as the funding does. On the merger front over the years, all the enthusiasm of funders has resulted in little increased activity. And when the result has been a merger, the benefits are arguable.

We should distinguish imposed mergers from those freely chosen. The United Way's Collaboration Learning Project indicates that of the five mergers and collaborations (with the help of top-flight technical assistance) among Milwaukee United Way grantees, three of the five had gone out of business three years after their initial funding.[12] As the United Way project learned from its advisers, "If organizations court one another first, there is a greater likelihood for success."

Beyond simply the desire to collaborate (and the funding to make collaboration happen), the factors of success include serendipity, timing, and even luck.[13] As one interviewee described the factors in a particularly successful collaborative effort, "We worked well together, we were remarkably free of organizational culture problems, [our partner's] commitment to quality and content was as high as ours was, [the collaboration] met a need, and the market responded."

## Less Social Engineering, More Sensing

Now funders should be poised to support a self-motivated willingness to work together—whatever it takes—particularly now that motivation for such stuff may be high. If small service-delivery groups begin to fail over the next six months, we may indeed see additional activity on the merger-and-acquisition front, but we are also likely to see unusual networks emerge. It might be wise for funders to remain open to all the possibilities for maintaining and rebuilding communities with residents at the center. Sometimes, it takes many small, connected entities to create social movement.

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# Collaboration or Competition in the National Nonprofit Infrastructure?

by the editors

Early in 2009, researchers directed by the *Nonprofit Quarterly* issued a report on the state of the national nonprofit infrastructure. In the context of that research, we learned that competition rather than collaboration was the norm among many of the infrastructure organizations we studied. Competitiveness, they reported, creates unproductive tensions and wariness among groups that should complement one another's work. Reportedly, it was not a problem of redundancy of purpose, but rather of institutional positioning. A limited number of foundations fund infrastructure, so relationships with these foundations and the ability to take primary credit for accomplishments are coins of the realm.

## Beneficial Collaboration

Nevertheless, some of the groups most criticized by these interviewees tout their collaborative behavior. This likely reflects the fact that funders—at least in word—clearly voice preference for collaboration. This interest led the Charles Stewart Mott Foundation to fund this brief inquiry into existing nonprofit collaborations and what we can learn from them. One note about the findings below, which were garnered through interviews with people engaged in infrastructure-group collaborative efforts and a review of documents: our examples were drawn from a larger pool than those originally studied. As you will see from the first example of a broad-based, action-oriented collaboration in the area of foreclosure, this pool includes the infrastructure of specific fields.

**Field-specific collaboration.** The challenge of negotiating for large blocs of foreclosed properties from recalcitrant lenders and servicers requires the blended creativity and experience of the nation's top community development financial intermediaries: the Local Initiatives Support Corporation, Enterprise Community Partners, the Housing Partnership Network, NeighborWorks America, the National Urban League, and the National Council of La Raza.

Notwithstanding their combined skills and knowledge, even discounted acquisitions require access to flexible capital. Without the Ford Foundation's $50 million in program-related investment, for example, the trust couldn't have functioned at a scale to target bulk acquisitions in major cities, much less leverage nonprofit access to acquisition funds from the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program.[1] Ford's lead investment should trigger commitments from other foundations to make the collaboration work.

We have described this collaboration first because it has a lot to recommend in it. The partners are large and influential enough to stand toe to toe with one another and their funding partners, there are clear time-specific goals dictated by the magnitude and pace of mortgage foreclosures, and each has its own networks of affiliates and partners in a distributed membership. No doubt the effort won't be perfect, but it is impressive.

On the other hand, several examples of collaborations are funder driven.

**Funder-driven collaboration.** The now-defunct Kellogg Action Lab was created as a collaboration between the Fieldstone Alliance and the Nonprofit Finance Fund (NFF). While Fieldstone and NFF brought distinct though complementary skills to the challenge of building the capacities of grantees of the W.K. Kellogg Foundation, there is no question that without the Kellogg Foundation, there would have been no Action Lab. The funding brought the partners together and kept them in the partnership. The business model was clearly rooted in the funder's commitment and, given that the beneficiaries were Kellogg grantees, the funder's self-interest. Recent reports suggest that the Kellogg Foundation has decided not to refund the project, however, and that the Fieldstone Alliance—a nonprofit publishing concern and the primary partner in the project—has been hard hit by the funding loss.

Diversity in Philanthropy and its D5 campaign are purely products of the foundation sector, prompted in large measure by the Greenlining Institute's efforts to compel large California foundations to report on diversity in their grantmaking and their leadership. Because they needed to circle the wagons to avoid legislative action, because they were sincerely concerned, or both, California foundations made this issue a top priority. The campaign succeeded in engaging major foundations inside and outside California in substantive discussions about diversity and grantmaking.

In the first example, the fact that a funder was involved in the conceptualization and development of the project may have stunted its capacity to build an organic energy of its own. In the second example, where a group of funders collaborated, funders' agendas and self-interest led to the collaboration in which several foundations worked together in common purpose.

**Funder-supported collaborations.** As the story below exemplifies, several collaborations emerge from the field where funders play a supportive role. The Nonprofit Workforce Coalition works on nonprofit staffing, employment research, and analysis. The coalition includes 80-plus organizations listed as "members," but observers cite the collaborative efforts of American Humanics—which acts as the umbrella agency—the National Human Services Assembly, Public Allies, and other infrastructure organizations as the prime movers of the group. The gestation of this collaboration occurred at national conferences in 2004 and 2005. Not surprisingly, foundations have been crucial supporters of this effort, including the Rockefeller Brothers Fund and the Annie E. Casey Foundation.

Underlying the formation of the Coalition was participants' recognition of mutual interest. Nonprofits have struggled with a variety of employment-related issues from salaries to diversity to student debt, but there were few activities to address these issues. The meetings leading to the formation of the coalition galvanized organizations to see the initiative as generating important information that they could use in their own operations and to advance workforce issues in general. As a first-year survey evaluation of the Coalition indicated, "17% [of respondents] report that the Coalition has provided their organizations with a vehicle to impact the nonprofit sector, 23% like receiving information and research about the issues, and 37% report appreciating the opportunity to build connections with other like-minded organizations."[2] While the Coalition hasn't tackled all workforce challenges in the nonprofit sector—indeed, the list for action is long and complex—the initial collaborative energy behind the Coalition constitutes a positive story.

**Organizational "pre-development" of collaboration.** The likelihood that a funder's participation in a collaboration impacts the effectiveness and sustainability of a collaboration presents some problems because it means that organizations themselves need to invest in some of that "pre-development" work on building collaborative activity.

In 1999, at the National Committee for Responsive Philanthropy (NCRP), the board restructured the executive director's job description to explicitly allow for building collaborations. When the National Network of Grantmakers (NNG) devised its "1 percent" campaign to increase foundation payout—even though the voluntary NNG strategy was less than the mandatory legislative approach favored by NCRP—NCRP joined the campaign and supported NNG to create a united front and encourage foundations to provide more grant dollars to constituents.

The Funder Networks Impact Assessment Project's effort to devise a common self-assessment tool for more consistency in evaluation for affinity groups appears to rely significantly on the energies of the executive director of the Funders for Gay and Lesbian Issues (FGLI). While other affinity groups were involved, the executive of FGLI has done a significant piece of the day-to-day work. In part, it is a reflection of the FGLI's self-interest: it is important to the gay and lesbian community to avoid "siloization" and to build social-justice alliances across identity groups, a commitment to "intersectionality." As a result, the affinity group carved out "alliance building" as a specific piece of the executive director's job description. If it evolves as it could, the result of this collaboration would be a "community of practice" among as many as 70 affinity groups.

For the infrastructure to carve out time for collaborations in their executive directors' workloads, they have to see the value of the engagement. For most of the collaborations in this report, what is distinctive is that even if they were large in scope and scale, they were narrowly constructed around specific, concrete issues: a self-assessment tool for funder affinity groups, a specific concern for providing core operating support to community development corporations, and so forth. As one expert noted about collaborations in general, which is certainly applicable to organizations in the nonprofit infrastructure, "Parties would be well served to find tangible, relatively manageable, finite projects that would allow them to test the relationship and see results."[3]

## Avoiding Collaboration Downsides

Not surprisingly, survey interviewees with experience in collaboration identified several possible downsides of a collaboration, including the need to compromise goals, intergroup competition, cooptation of mission, and problems with division of labor.

**Troubled collaboration.** The broadly positive stories of collaborations among infrastructure organizations sometimes mask the reality that many are troubled. According to some observers, the trouble emerges when organizations have to confront the reality of accepting limitations on their beliefs and missions within the context of interorganizational collaborations. That clash emerges when organizations have overlapping and competitive knowledge and skill sets. Whose knowledge and expertise will predominate? If the collaboration is among management service organizations, for example, whose approach to financial analysis, strategic planning, board management, and collaboration is right? How much will organizations led by strong-willed managers give up on their sense that they are "more right" than their collaborative partners? Collaboration implies accepting and building on mutual strengths. But we would be soft-soaping reality not to suggest that the leadership of many national infrastructure organizations believes that it doesn't need the input of collaborators.

In many cases, groups struggle over which organization can take credit for collaborative accomplishments. The dynamic is not pretty. As an observer notes, within the infrastructure there are some "sandbox bullies" who make the prospect of forming a collaboration hard to fathom. For collaboration to work, zero-sum bullying as groups scrum to take credit for accomplishments has to end.

**Collaboration as cooptation.** Observers broadly hint that some efforts to induce collaboration have hidden agendas. Sometimes, they suggest, proponents of collaboration aim to bring several players under one tent whose agenda they might control. Some suggest that the effort of the Council on Foundations to integrate more closely with the various foundation affinity groups (and the Forum of RAGs)—as positive as the outcome might be for the participating entities—may reflect the Council's strategic objective of strengthening its weight and influence among foundations and infrastructure groups (note: some institutional foundation or foundation staff members of the affinity groups are not members of the Council itself). The cooptation concern emerges when collaborations are pitched among organizations of significantly different sizes, scopes, and reputation.

**Ownership.** Who "owns" a collaboration? During the administration of President George W. Bush, the Let America Speak collaboration, originally created to confront legislative efforts to restrain nonprofit free-speech rights during the 1990s, faltered amid disputes regarding which of the original partners owned how much of the coalition and which organizations would be the "gatekeepers" to determine future organizational membership. In the end, one of the original collaborating entities concluded that it embodied the effort and had final say over acceptable positions for the coalition. As a result, some of the lower-ranking members of Let America Speak went on to form NP Action, which evolved into an online resource of tools for nonprofit advocacy (see npaction.com).

**Doing the work.** The stories of collaboration among national infrastructure organizations are fundamentally stories of collaboration and of the challenges of organizations working together no matter who is at the table and what they want to achieve. A comment from the first-year evaluation of the Nonprofit Workforce Coalition conveys the challenge of determining who in a collaboration is responsible for doing the work—and how one gets other collaborators to pitch in appropriately. "In the national meeting they had in Minnesota, there were multiple parties contending and fighting with each other *not* to be in the leadership role,"[4] notes the interviewee. Another interviewee says, "Right now it's a very small number of people who are doing any real work. Members just wait for [the American Humanics staff person] to initiate communication."[5] Interviews conducted for this article uncovered the same dynamic. One interviewee put it succinctly in describing her participation in one of the collaborations: "I chair the committee; I do the work."

There may be a social Darwinism underlying this dynamic. Interviewees confirm what many of the evaluation reports suggest: over time, some collaborating organizations reduce their participation because they do not have time for the phone calls or for reading the materials necessary for collaborations to function. It is no fun for the people who take on the leadership roles and end up carrying the weight. But it may be a mechanism for distinguishing the truly committed from the free riders.

**Give to get.** One of the huge frustrations of collaborations, particularly when loosely conceived, is that some players are more collaborative than others, particularly when it comes to how much time and energy the participating organizations will devote. While there is no elixir to make collaborations successful, there is a need to think about how to make interorganizational collaborations exact energy and commitment from all the players.

In some of the collaborations noted here, when collaborators have to give something of value, their commitment is more real and sustainable. At Family Philanthropy Online, a subscription service from the National Center for Family Philanthropy, "content partners" contribute information through the network, and subscribers can adapt the FP Online information in their own programs.[6] The early plans of the Workforce Coalition called for members to ante up $1,500 to participate. According to one observer, "Sustainable collaborations are not free," but the payment should not only be external (i.e., from foundations), but from the collaborating partners themselves.

Funders may be turned on by collaborations and mergers (see "Shotgun Mergers amid Financial Crisis" on page 58), but for the national nonprofit group infrastructure, the paucity of long-term success should tell us to temper enthusiasm with realism. If infrastructure groups—or any nonprofits—want to make collaborations happen, they had better prepare for long process, extra staff time, and real financial costs and consequences. And for funders of infrastructure, it makes far more sense to support naturally occurring collaborations where partners have already invested in one another's success than to coerce collaborations.

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# A Table for Two: Founders and Successors in the Same Shop?

by Mark Leach

***Editors' note:*** *This article is based on* Table for Two: When Can Founders and Successors Co-exist So Everyone Wins? *by Mark Leach of the Management Assistance Group (MAG).*[1] *The study profiles six nonprofit organizations whose founders were retained in a permanent new role or to overlap for a period with a recently hired successor (to see the study, go to www.table-for-two.net).*

*Organizations that face an impending transition but are hesitant to lose relationships because of a leadership change can learn from some of the approaches described here. In this article, we focus on the roles of retained founders and how to make these leadership approaches successful.*

Executive transitions are pivotal moments in the lives of many nonprofits, particularly when organizations make the shift from a founder or long-term leader to a successor. Founders can be powerful organizers of the culture, direction, and developmental progress in an organization. Many are emotionally attached not only to the work but to the way the work is done.

So it is not surprising that much of the existing literature, prevailing wisdom, and professional guidance on executive succession counsels that a founding executive should have little—or no—ongoing relationship with his former organization after he steps down as chief executive. In most cases, this guidance is the best course. But is the need to purge the founder so absolute?

To the contrary. There are instances in which—if steered in the right direction—former executives' experience and institutional knowledge can be a valuable asset during leadership transitions. The key is to harness this power correctly and create clear lines of authority between the old and the new guard.

Until the recent publication of Jan Masaoka's *The Departing: Exiting Nonprofit Leaders as Resources for Social Change*, only a few would suggest that keeping a founding executive on in a substantive role is worth the risk. In 2004, Deborah Linnell courageously asked whether all "executive directors really have to 'completely' leave an organization" for an incoming leader to flourish and offered a successful example where the executive stayed on.[2] Masaoka advances the conversation greatly by identifying various options for founders who remain at an organization in a modified role such as a project director, fundraiser, or board member.

The for-profit sector has time-tested ways of keeping founding leaders constructively involved in key aspects of the organization's work (such as the "of counsel" role for ex–senior partners in law firms). These for-profit sector examples and MAG's successful experimentation prompted us to identify other nonprofit organizations that had successfully transitioned into new leadership while retaining the founder on staff. MAG's study is based on six such organizations. Here we describe founders' dos and don'ts during the succession that enabled successful transitions.

## Founders Dos during Transition

In our study, most founders continued in several important functions they held previously as CEO. But their organizations set clear boundaries on what they would be involved with and took steps to ensure that governance and management systems reinforced appropriate lines of authority. Typically the board and founder negotiated these boundaries prior to the leadership transition, usually with the agreement of the successor. The successor had the power to terminate or change that relationship. In the six examples of leadership transition, some themes for success emerged:

- Half the former founders continued leading substantive program work in one or more areas in which they were the undisputed content experts and had significant relationships. They did so with reduced freedom to act independently and understood that they served at the pleasure of the new CEO.
- Half the former founders played significant, ongoing leadership roles in funder cultivation, organizing fundraising, and making "asks." (As in a typical "graceful exit" transition, all the founders in this study helped transfer funding relationships to their successors and provided advice on managing these relationships.)
- Half the former executives continued to speak and appear on behalf of their organizations at various events. They mainly did so when asked by the new CEO, and were disciplined about reviewing positions and talking points with the CEO or other relevant senior program manager beforehand.
- After stepping down, most former founders took part in activities in which they had never been involved, including the following:
  - special project work, often to launch new initiatives under their watch;
  - high-level organizational problem solving (managing growth or restructuring, for example);
  - writing to benefit their field or to document their knowledge and experience; and
  - coaching, advising, or mentoring a successor and staff.

## Founders Don'ts during Transition

Additionally, in terms of what founders did not get involved with after stepping down as CEO, some trends emerged:

- Most founders became less—or not at all—involved in setting overall organizational strategy, particularly during the first year or more after stepping down. This helped address concerns about inhibiting the successor's expression or development of new ideas and took several forms, including the following:
  - the founder did not attend strategic planning sessions for a year or more following the transition;
  - the founder shared ideas on strategic questions only with his successor and left it to the successor's discretion as to whether to insert these ideas into the planning process.
- After stepping down, four of the six founders did not attend board meetings or did so only to participate in specific presentations or discussions at the invitation of the board or new CEO. Two founders either retained their previous board membership or joined the board for the first time as a voting member. In both cases, the board or successor set limits on the founder's board involvement, including permissible committee assignments and a waiting period before reengaging with the board.
- Founders stayed out of certain leadership activities, including the following:
  - program strategy, except in areas where they were designated leaders;
  - commenting publicly on board-staff relations; and
  - commenting publicly on staff management issues.

## Clarity Creates Continuity

MAG's report discusses individual and organizational characteristics and practices that can make executive succession successful. But we conclude this article with a few words of advice to boards: (1) no board should consider such an arrangement as the result of feeling coerced or held over a barrel by a founder; (2) organizations should consider this kind of a transition only when its board concludes that the benefits greatly outweigh the costs; and (3) overdependence on a founder is not a good practice, nor is it a reason to attempt this type of leadership transition.

That said, the study indicates that these arrangements can work well under certain circumstances and can be responsibly considered by nonprofit boards. While the presence of former executives can create confusing lines of authority between former and current leadership, some organizations have proven the benefits of transitional periods or continued roles for a former CEO. These approaches can create continuity of leadership, bolster institutional knowledge, and empower a successor in his decision making.

### Endnotes

1. Mark Leach, *Table for Two: When Can Founders and Successors Co-exist So Everyone Wins?*, Management Assistance Group (www.table-for-two.net).
2. Deborah Linnell, "Founders and Other Gods," the *Nonprofit Quarterly*, vol. 11, no. 1, 2004.

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# The Take-Away

by the editors

**Lessons Learned—or Not**
by Ruth McCambridge
When entering a new organization at any level of the hierarchy, you need to learn the language, customs, and values before making a precipitous move. Understanding the climate allows you to accept or challenge the prevailing culture in a skilled and knowledgeable way.


Mission, Message, and Damage Control

**Mission, Message, and Damage Control**
by Kim Klein
Kim Klein explores the delicate business of articulating the state of your organization to various stakeholders in the midst of difficult times—whether the situation involves declining revenue, scandal, or even organizational closure.


Is Bigger Better?
The Case for Small Nonprofits

**Is Bigger Better? The Case for Small Nonprofits**
by Fran Barrett
In the for-profit world, the dynamism, agility, and engagement of small nonprofits would be characteristics to aspire to and paragons of good practice. So why are small nonprofits getting overshadowed in the third sector? Fran Barrett makes the case for the vitality and essential role of small nonprofits.

**Alive and Kicking: Nonprofits in Late 2009**
by Lissette Rodriguez
The economic downturn has created the need for nonprofits to monitor, reorganize, and get creative. Several capacity builders and nonprofit leaders weigh in on exactly what they have experienced and what they see as avenues forward.


Alive and Kicking:
Nonprofits in Late 2009

**Advocacy in the Age of Obama**
by Ruth McCambridge
Today advocacy organizations are enormously important, with state and federal policy and funding in flux. This third installment of the "Nonprofits in the Age of Obama" series focuses on


Advocacy in the Age of Obama

the work and challenges of state-based advocacy organizations in Arkansas and New Mexico and on the network of the National Alliance of the Mentally Ill.


**Secret Code: The Message to Nonprofits in the Federal Budget**
by Rick Cohen
Savvy nonprofits are attentive to the semantic cues in the Obama administration's new budget. As detailed in this article, the budget's language reflects the administration's and legislature's values and expectations.

**The United Way: Missed and Missing Goals**
by the editors
In tracking news stories about local United Way Campaigns, *NPQ* editors discerned some trends, including a growing number of organizations that have not set cash goals. This piece details some of the locales in which that has occurred, what it might mean, and how campaign goals are connected to unemployment rates.

**Foundations Invest in For-Profits**
by the editors
Foundations may have birthed a new philanthropic fad: making program-related investments (PRIs) to for-profit entities. This trend may be related to the concept of philanthropic "sector agnosticism," as described by Ralph Smith of the Annie E. Casey Foundation in the Winter 2008 issue of *NPQ*. Do PRIs threaten the already small "capital market" of the nonprofit sector?

**Government and Nonprofits: Turning Points, Challenges, and Opportunities**
by Steven Rathgeb Smith
In this article, Steven Smith, co-author of *Nonprofits for Hire*, traces the historical connection between the government and nonprofit sectors and cautions nonprofits to carefully examine the potentially changing direction of that relationship.

**Nonprofits and Journalism: An interview with Mark Jurkowitz**
by the editors
Mark Jurkowitz of the Pew Research Center's Project for Excellence in Journalism provides an overview of the state of journalism in the United States. He looks at its future and its options for existing with integrity in the nonprofit sector.

**Shotgun Mergers amid Financial Crisis**
by the editors
With fewer dollars to go around, funders have advocated nonprofit mergers to prevent nonprofit failures and consolidate organizational power. But funders should consider whether shoring up nonprofit networks rather than simply merging disparate organizations is a better approach.

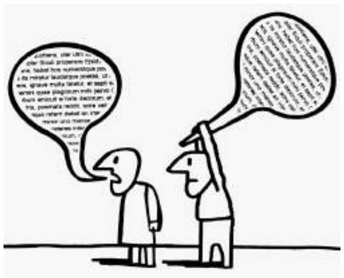
**Collaboration or Competition in the National Nonprofit Infrastructure?**
by the editors
*NPQ*'s early-2009 research on nonprofit infrastructure discovered some unproductive behavior at play on the national scene among groups that are supposed to provide support and resources to nonprofits. This article examines various collaborations and their results.

**A Table for Two: Founders and Successors in the Same Shop?**
by Mark Leach
An executive transition is a pivotal moment in the life of a nonprofit. Some nonprofits have navigated these periods by retaining outgoing executives to provide continuity and support for incoming leadership.

But this arrangement can work only when the circumstances are right. This article discusses some key variables for success.

**Dr. Conflict**
by Mark Light
Dr. Conflict advises a new executive director who can't manage to shake the organization's founder.

**Does the End Justify the Middleman?**
by Phil Anthrop
A project designed to cut out the middleman in the nonprofit sector may succumb to the very problem that it strives to combat.



# Dr. Conflict

by Mark Light

DEAR DR. CONFLICT,

Recently, I became the executive director of a small, long-standing organization. I expected to uncover dysfunction, but I had no idea how major the red flags would be. Every time a flag cropped up, I broached the issue with the board chair, who is also the former executive director (I know, I know! Red flag! Red flag!). In each case, I was told not to worry about it, as in, "Don't worry about not having access to the organization's books to assess the fiscal health" (flag). At our next meeting, I plan to present these issues to the full board and request guidance.

I know what I can and cannot support, and I am ready to step down. I want to give the board members every chance to do the right thing—perhaps they will decide independent of the board chair, who says they are great and do what he tells them to do. But every pore in my body is screaming, "This is not OK! Get out now!"

So my question is this: when it's clear that the organization's practices are not acceptable by reasonable industry standards, how long should the executive director fight the good fight?

Seeing Red Flags

*Dear Seeing Red Flags,*

*Dr. Conflict's first rule of conflict is that it's never about the fence. Neighbor-to-neighbor disputes often arise over something trivial when the real issue is something deeper. Your troubles may appear to be about the organization's financials or discriminatory practices, but they are just the symptoms.*

*The sorry news is that you can't get anything done because you're not the "true" executive director. You can call yourself the general manager, but executive director? No way. And your board chair? You guessed it: he's the true executive director, the big cheese, the head honcho.*

*Why is he acting like the boss? Could it be that he has founder's syndrome and can't let go? Could he have an undying thirst for power? Dr. Conflict's best guess is that he's acting like the executive director because you're not. That's right: you need to start acting like an executive director—and the sooner the better!*

*Here's the question you need to answer: if you see flag after flag, why are you doing so little? This is no time to timidly ask for the board's guidance. If you want the board to do the right thing, get its blessing to do it, or leave. Every great executive director knows the board wants you to lead, to help it be the best it can be. And guess what? The best CEOs "are expected to accept the central leadership role in nonprofit organizations, [which] often requires that CEOs take responsibility for enabling their boards to carry out the boards' duties," according to Robert Herman and Dick Heimovics.*

*If things are as bad as you say, the state attorney general, the local press, or some wingnut will get wind of these problems. Do you want to take the fall for being executive director in name only, or do you want to take a stand? By standing up for the responsibilities of your office, you have a shot at landing the top job for real and making things right. But before you proceed, have a confidential conversation with an attorney.*

**DR. CONFLICT** is the pen name of Mark Light. In addition to his work with First Light Group (www.firstlightgroup.com), Light teaches at the Mandel Center for Nonprofit Management at Case Western Reserve University. Along with his stimulating home life, he gets regular doses of conflict at the Dayton Mediation Center, where he is a mediator.

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***Phil Anthrop**, continued from page 72*

Resentment has grown among the purported beneficiaries of the booming intermediaries, anxious that bigger and bigger leaks have sprung in their pipelines of support. "I understand the funders want to spend some money on support mechanisms, says Susan Jaffe, the director of the Peninsula Food Shelf in Pensacola, Florida, "but less and less is getting to the end of the line where people actually get served. I appreciate some of the handbooks, surveys, regranting opportunities, special capacity building workshops and such, but there is way too much support stuff when what we really need is money support."

Carter McKenzie, the founder of the Social Innovation Center (SIC), concedes that the view upstream is quite different. "We choose these opportunities carefully and never want to absorb more than necessary. Nonetheless, we have a major expansion under way, because we learned that going deeper into organizational support requires getting to scale."

Though no longer participating, Angie Hoffman joined McKenzie in 2005 to form the Global Initiative for Intermediaries (GII) in New York. GII was set up to provide a new channel for long-term support of intermediary organizations. Hoffman recalls the first time the idea of an "intermediary for intermediaries" was discussed. "GII seemed funny at first, a master Visa for all the smaller channels, but I'll hand it to McKenzie: he made it one of the hottest recipients of foundation grants in 2006 and 2007."

After two years, GII's budget has grown to $102 million a year with a staff of 130. While the initial goal was to be primarily a regranting agency, moving money to intermediary organizations around the world, McKenzie became GII's president and determined that the organization first needed to spend most of the funds internally for the greatest impact.

"A waste of money—pure and simple," complains Ibrahim Kuran, the founder and CEO of California Intermediary Network. "First, GII had the foundations, then the federal agencies, and now the United Nations all eating out of its hand. And how much money gets down to us, the people doing the real intermediary work? Hardly anything."

Hoffman adds, "There is no way GII needs to spend that amount of money studying the problem and thinking about it when we're out here slogging away with insufficient resources."

## Disintermediation Is the Message

Perhaps it was inevitable. For every action, there is an equal and opposite reaction.

> "There is no way GII needs to spend that amount of money studying the problem . . . when we're out here slogging away with insufficient resources."
> —Angie Hoffman, director, Project Disintermediation

"The only way we can fix these leaks is to plug the holes," says Peninsula Food Shelf's Jaffe. "Intermediaries are inherently inefficient middlemen who get in between a willing buyer and a willing seller to take their cut."

And who better to run Project Disintermediation than one of the intermediary movement's founders, Angie Hoffman?

"It's time to bypass the middlemen," declares Jaffee, who serves on the board of Project Disintermediation. "The most important result will be a reduction in the cost of servicing customers directly. Project Disintermediation is raising a war chest to distribute to local groups to take on the unnecessary middlemen of the nonprofit sector. We have a solution and will take them down, one at a time," Jaffee warns.

"We know this will take money and expertise," Hoffman predicts. "As the new executive director of Project Disintermediation, I will deliver high-quality technical assistance, regranting opportunities, and special capacity-building workshops for local projects to get this done."

"Remind people that Project Disintermediation is new, so we won't be able to spend as much of the funds on grants as we'd like," Hoffman concludes.

**Phil Anthrop** is a consultant to foundations in the G8 countries.

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# Does the End Justify the Middleman?

By Phil Anthrop

*The end may justify the means as long as there is something that justifies the end.*

—Leon Trotsky

Angie Hoffman is one of those leaders who sees a market opportunity before anyone else and starts a business—or, in this case, puts it in a foundation proposal. "Yes, I was one of the founders," Hoffman notes. "But I guess being entrepreneurial at the beginning didn't mean I could see how the intermediary movement would itself turn into the same kind of self-seeking, bloated bureaucracy that it was supposed to solve."

"That's why I'm working my butt off to get Project Disintermediation funded," Hoffman adds.

## The Rise of Intermediary Organizations

Intermediaries have moved into every activity area and part of the country in the nonprofit and foundation world and, from all appearances, must be essential given the amount of funds expended. While the nonprofit sector has grown at twice the rate of the rest of the economy since 1985, intermediaries have expanded 10 times that amount.

David Smathers, the editor of *The Intermediary Handbook* and an adjunct professor of management at the University of Mammon, describes the need for intermediary organizations this way: "A certain amount of connectivity is needed, with support, technical assistance, and data. Without these tools, it is almost impossible for an individual organization to know how to do anything—let alone how to do it the right way. This remedial role improves performance and frees the funder's time to attend to more important matters, such as foundation conferences."

"Less and less is getting to the end of the line where people actually get served."
—Susan Jaffe, director, Peninsula Food Shelf

The historic role of intermediaries dates to the early days of associations of all types—in which people first gathered informally, identified a need, and then created formal vehicles to hold larger and lengthier meetings to more effectively express their needs.

Professor Smathers identified six major benefits of intermediaries, which he calls the Smathers Sextuplet. "Intermediaries make sense in a fast-paced, fragmented, and confused world, where every organization profits from placing buffers between it and its sources of support or clients," Smathers notes. "And my Smathers Sextuplet is the final proof."

"I regret it now, but I was the first one to use the Visa analogy," admits Hoffman, who in 1991 was the associate director of the Nonprofit Support Center in Washington, D.C. "I thought that if we could just capture a reliable sliver of upstream revenue—just be like Visa and, say, get 3 percent to 5 percent of all the money going to nonprofits—we could finally deliver the management support services we need to. I never dreamed that in some fields, the intermediaries would end up diverting 20 percent or 30 percent of the whole."

## Increasingly Leaky Pipelines of Support

The Census of Intermediaries and Collaborations lists 14,356 intermediaries of various types, with expenditures of $57 billion per year (though this is considered an undercount).

*Continued on page 71*



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